VII

INTERNATIONAL FINANCIAL ORGANIZATIONS

International Financial System

The 1997 world crisis that rocked Southeast Asia, Russia and, subsequently, Brazil gave way to a climate of greater international financial market confidence in 1999, particularly in the latter half of the year. The flow of funding to the developing countries, which had dropped sharply in 1998, turned upward in the following year, though the pace was rather slow and heavily concentrated in those countries that had been most successful in overcoming their difficulties. With this, several economies in Latin America, the former Soviet Union and the Middle East became mired in stagnation and declining output.

In 1999, the assistance provided by international financial organizations to the developing countries, particularly through so-called soft loans, remained at the previous year's level. Recent years have been marked by a retargeting of resources, with increasingly larger amounts being channeled into emergency aid in such sectors as post-conflict assistance, foreign debt relief for the poorer nations and other types, in detriment to programs of direct support to development activities.

In overall terms, the decline that has occurred in Official Development Assistance (ODA) has been offset by the efforts of some industrialized nations to back private capital flows, particularly through export financing programs and the providing of guaranties. Multilateral institutions have been channeling increasingly greater amounts of funding into guaranty programs.

The debate on the Strengthening of the Architecture of the International Monetary System has dominated the agenda of international financial organizations, particularly the IMF. There are several aspects that deserve analysis: i) the involvement of the private sector in preventing and resolving financial crises; ii) exchange systems; iii) ordered liberalization of the capital accounts of the balance of payments of the various nations; iv) restructuring of international financial organizations; v) the social agenda; vi) transparency and international standards and vii) banking supervision.

At the September 1999 Joint Annual IMF/World Bank Meeting, a G-7 proposal was approved aimed at accelerating implementation of the Heavily Indebted Poor Countries Initiative and expanding the scope of the debt relief process for the poorer nations. The objective of the initiative is to ensure debt sustainability to low income nations that adopt IMF or World Bank supported adjustment and reform programs. To qualify for the initiative, countries are monitored in terms of the performance of their structural and macroeconomic policies, as well as their social development criteria.

International Monetary Fund (IMF)

On December 27, 1945, 29 countries signed the IMF Constitutive Agreement. Since that time, another 153 have joined the fund, raising the total to 182 member countries. With approval of the 11th General Revision of Quotas, which went into effect on January 22, 1999, the Fund's total capital increased to SDR 212 billion or approximately US$ 300 billion. With this replenishment, Brazil's holding came to SDR 3,036.1 million with the IMF, accounting for 1.45% of total voting power.

In 1999, the IMF concentrated its attention on strengthening the architecture of the international monetary and financial system, particularly as regards creation and consolidation of instruments designed to prevent and manage world financial crises. In this sense, one should stress the review of its supervisory activities, particularly with respect to the solidity of banking systems, dissemination of data and information on economic policies and the fostering of good public management among member countries.

In its turn, the Interim Committee adopted the Code of Good Practices for Transparency in Monetary and Financial Policies, which follows the same basic guidelines as the Code of Good Practices for Fiscal Transparency, approved in April 1998. This document is designed to disseminate the transparency practices recommended to central banks and other financial entities in the implementation of their monetary and financial policies. Among the other instruments being elaborated, one should cite those involving banking supervision standards, regulations on securities, insurance, accounting, auditing, insolvency and corporate management.

In the administrative sector, several alterations were introduced into the structure of the Interim Committee with the aim of strengthening its role as advisory entity to the IMF Board of Governors. Since September 1999, it has been known as the International Financial and Monetary Committee of the Board of Governors.

In terms of the dissemination of economic data, the scope of SDDS (Special Data Dissemination System) was broadened to include detailed information on international reserves, the foreign indebtedness of the various member countries, including indicators on liabilities consequent upon foreign reserve positions, international investments and procedures for monitoring data dissemination standards. By 12.31.1999, 47 countries had adopted SDDS. Upon signing the financial assistance agreement in December 1998, Brazil assumed the commitment to adopt SDDS and adjust its information flows to the standards suggested by the Fund.

In April, the Executive Board of the Fund created a new type of financial assistance known as the Contingency Credit Line. This is a defense mechanism for countries that, despite having pursued economic policies recommended by the Fund, have been contaminated by events occurring in other nations.

In the 1999 fiscal year ended on April 30, 1999, the member countries effected withdrawals totaling SDR 24 billion (approximately US$ 32 billion) under the terms of credit tranches. The Fund approved four new Stand-by Agreements, with a total value of SDR 14.3 billion, four Extended Fund Facilities (EFF), corresponding to additional commitments of SDR 14.1 billion, as well as ten Enhanced Structural Adjustment Facilities (Esaf), totaling approximately SDR 1 billion. In the 1999 fiscal year, 56 Fund programs were underway – four less than in the previous year – including nine Stand-by Agreements, 12 EFF agreements and 35 Esaf agreements.

The debate on how to conciliate the objective of macroeconomic stabilization policies with a social agenda or, in other words, how can economic and social policies be implemented simultaneously and in an integrated manner in one and the same country, intensified greater in 1999 among multilateral organizations, particularly the IMF. It was in this context that changes were introduced into the Esaf system, which is designed to provide debt relief to the Highly Indebted Poor Countries (HIPC). With the changes in question, these operations are also to be targeted at the social agenda, in cooperation with the World Bank. The name of Esaf was changed to Poverty Reduction and Growth Facility (PRGF).

Insofar as the loans granted by the Fund to Brazil are concerned, withdrawals in 1999 came to a total of US$ 10.8 billion, out of an available total of approximately US$ 17.9 billion, in the context of the Financial Assistance Program. Amortizations referring to IMF financial assistance in the period totaled an amount equivalent to US$ 1.9 billion.

In the context of the financial assistance program, in 1999 the Brazilian government formalized its adherence to Article VIII, Sections 2, 3 and 4 of the IMF Constitutive Agreement. With this, the country accepted the regulation that states that restrictions are not to be imposed on operations involving imports and exports of goods and services.

Bank for International Settlements (BIS)

Founded on January 20, 1930, BIS performs the functions of fostering cooperation among central banks and facilitating international financial operations.

In 1999 (fiscal year 1999, extending from April 1, 1998 to March 31, 1999), BIS had 45 associate central banks and, in November 1999, had invited an additional five central banks to join its ranks: Argentina, Indonesia, Malaysia, Thailand and the European Central Bank. The BIS Executive Board is composed of the Governors of the Central Banks of Belgium, Canada, the United States, France, Germany, Italy, Japan, Holland, Sweden, Switzerland and the United Kingdom, plus directors designated by six of these nations. Brazil has possessed shares of the BIS since 1997, following its ratification of the act of adherence by the National Congress.

In the 1999 fiscal year, BIS assets totaled US$ 131 billion, including US$ 5.7 in capital and reserves. Authorized BIS capital corresponds to US$ 2.9 billion, divided into 600 thousand shares with an issued total of 517,165 shares.

BIS is responsible for custody of the American Treasury papers (zero coupon bonds) offered by Brazil as guaranties for its restructured foreign debt bonds (Bradies).

Here, one should stress the importance of the BIS to the Program of Financial Assistance to Brazil. The institution was responsible for mobilization of resources from central banks in the developed countries, while also injecting funding from its own portfolio, in an overall total of US$ 13.3 billion. Up to 12.31.1999, drawdowns came to US$ 4.15 billion in the first installment and US$ 4.5 billion in the second. In 1999, the first installment was totally reimbursed together with 30% of the second, for a total of US$ 5.5 billion.

In cooperation with other international organizations, the BIS has participated in the reformulation of the international financial system as a center for discussions and debate among central banks and those responsible for formulating control policies. In February 1999, the Financial Stability Forum was created. This organization brings together members with responsibility for international financial stability, including central banks, international institutions, regulatory institutions and specialists in this area. In the same period, the Euro-currency Standing Committee adopted the denomination of Committee on the Global Financial System and adopted a series of new responsibilities, including: (i) systematic monitoring of the short-term global financial system; (ii) long-term analysis of financial market operations and (iii) coordination of a policy of recommendations for the operation of financial markets, with the primary objective of ensuring their stability. The work of the Committee on Banking Supervision is centered on a discussion of specific banking supervision problems, the responsibility of national authorities with respect to supervision of domestic banking systems and their branches located outside the country and the standards of supervision as related directly to the question of solvency. Recently, the Committee issued a manual entitled Core Principles for Effective Banking Supervision.

World Bank Group

The International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Financial Corporation (IFC), the Multilateral Investment Guaranty Agency (Miga) and the International Centre for Settlement of Investment Disputes (ICSID) are the component elements of the World Bank Group. The profiles and specific objectives of these institutions range from reducing poverty and improving the quality of life in some of the most needy regions of the globe to implementation of policies designed to stimulate the flow of private investments to developing nations.

Founded in 1945, the International Bank for Reconstruction and Development has the primary functions of fostering sustainable development of the economies of the developing nations and contributing to attenuating situations of poverty. To achieve these ends, the IBRD provides loans, guaranties and technical assistance to its 181 members, while acting as the principal catalyst of funding from other sources. In their turn, the member states acquire IBRD quotas that reflect their participation in the IMF and, to some extent, the participation of each country in the world economy.

The major sources of IBRD funding are as follows: paid-in capital, amortizations, interest and commissions on loans granted and, principally, funding contracted on the international capital market. The volumes of funding from each of these sources are as follows (in US$ million):

	FY1998 [1/]	FY1999 [2/]	% change
Paid-in capital	11 288	11 395	0.95
Amortization	11 518	10 082	-12.47
Interest	6 775	7 535	11.22
Immobilization commissions	106 000	114 000	7.55
Funding	28 007	22 443	-19.87

1/ The 1998 fiscal year corresponds to the period from 7.1.1997 to 6.30.1998.

2/ The 1999 fiscal year corresponds to the period from 7.1.1998 to 6.30.1999.

In the 1999 fiscal year (FY1999), new financing totaling US$ 22.2 billion was approved, reflecting an increase of 5.2% in relation to FY1998 (US$ 21.1 billion) and 53% in relation to FY1997 (US$ 14.5 billion). The major commitments in the period involved Argentina (US$ 3.2 billion), Indonesia (US$ 2.6 billion) and South Korea (US$ 2.1 billion).

The volume approved in FY 1999 reflects a second year of significant demand for resources on the part of developing countries with the objective of combating or preventing financial crises. Since the period witnessed a sharp decline in confidence on the part of private capital, these countries were able to count on IBRD support.

Insofar as disbursements are concerned, FY1999 registered a volume of US$ 18.2 billion, reflecting a decline of 5.5% in relation to FY 1998 (US$ 19.2 billion) and growth of 30% in relation to FY1997 (US$ 14 billion).

The major share of these resources – approximately US$ 8.8 billion, corresponding to almost 40% of total funding approved – was reserved to projects combining environmental, financial and social components (multisectoral projects), followed by financial (US$ 2.6 billion) and social (US$ 2.2 billion) sector operations.

In terms of distribution by region, Eastern Asia received the greatest benefits (US$ 8.8 billion), followed by Latin America and the Caribbean (US$ 7.1 billion). Taken together, these two regions accounted for approximately 77.6% of total IBRD funding commitments in the year.

Eight Brazilian projects were approved at a total value of US$ 1.7 billion (23.9% of the amount made available to Latin America and the Caribbean). Of these projects, particular mention should be made of the Social Security Reform Program (US$ 757.6 billion) and Social Protection Program (US$ 252.5 million), both of which are part of the Financial Assistance Program implemented jointly by IDB, IBRD, IMF, BIS and BoJ – Fundescola Program (US$ 202 million) and the Program of Control of Sexually Transmitted Diseases (US$ 165 million). In the previous period, Brazilian programs approved came to a total of US$ 1.6 billion.

Also in the case of Brazil, FY1999 witnessed disbursements of US$ 1.9 billion to ongoing projects, the country paid amortizations totaling US$ 968 million and paid interest and charges totaling US$ 406 million. At the end of the period, the undisbursed balance came to US$ 3.9 billion.

The International Development Association (IDA), which was created in 1960 and now has a total of 160 members, is the major source of soft loans for the poorer countries, classified as those with annual per capita income of less than US$ 925 in 1997.

In FY1999, IDA carried out 145 new operations in 53 countries in a total amount of US$ 6.8 billion (approximately 9% less than the volume approved in the previous period). The regions that drew the greatest benefits were Africa (US$ 2.1 billion), Southern Asia (US$ 1.8 billion) and Eastern and Pacific Asia (US$ 1 billion). Latin America received credits worth US$ 0.6 billion, 8.9% of the total made available in the period.

Insofar as distribution by activity is concerned, the sectors of farming (US$ 1 billion), transportation (US$ 0.9 billion) and multisectoral projects (US$ 1.5 billion) were given priority, and accounted for a level of approximately 50.8% of total credits granted.

On 4.8.1999, the terms and conditions proposed to the IDA Board of Governors were duly approved with the purpose of implementing the 12th Funding Replenishment (IDA-12), corresponding to a capital increase of SDR 8.65 billion. This procedure has the objective of meeting the needs of a loan program estimated at SDR 15.25 billion for the period between July 1, 1999 and June 30, 2002.

Brazil participates in IDA-12 with SDR 82.08 million, representing 0.95% of the capital increase and corresponding to growth in the nation's share of voting power from 1.39% of the total to 1.47%.

The International Financial Corporation (IFC), which was created in 1956 and now has 174 member countries, has the objective of fostering the economic growth of the developing countries through such mechanisms and loans and/or stock participation in private companies, capital mobilization on international financial markets, coupled with technical assistance to the public and private sectors.

In FY1999, 255 projects were approved in a total amount of US$ 5.3 billion, of which US$ 3.5 billion reflect the institution's own resources and US$ 1.8 billion originated in other sources of funding.

With regard to Latin America and the Caribbean, there were 58 projects and a total volume of IFC financing worth US$ 2.5 billion, of which US$ 864 million consisted of loans, US$ 373 million of stock participation and US$ 1.2 billion in syndicated loans and approved underwriting operations. In much the same way as occurred in FY1998, the region absorbed the largest share of the Corporation's funding, corresponding to 46.4% of the total. Nine Brazilian companies were able to raise a total of US$ 521.8 million in financing for their undertakings, accounting for approximately 32.9% of the total cost of those undertakings (in the previous period, 20 projects received financing worth an overall amount of US$ 929 million, or 39.3% of total cost).

The Multilateral Investment Guaranty Agency (Miga) was founded in 1988 and has 165 members. Its primary objective is to work together with governments with the objective of attracting direct investment into developing countries. The Agency provides foreign investors with guaranties against noncommercial risks. Aside from this, Miga supplies technical assistance to its members in order to facilitate dissemination of information on investment opportunities.

In FY1999, the Agency issued 72 guaranty contracts (total value of US$ 1.3 billion in gross coverage), benefiting 29 developing countries. Latin America and the Caribbean were the region that drew the greatest benefit from Miga guaranties (48% of the portfolio), led by Argentina, Brazil and Peru. In the period as a whole, approximately US$ 209.4 million in guaranties for Brazil were given approval. The highest levels of participation in the Agency's portfolio were held by Argentina (11.9%), Brazil (9.7%), Russia (8.3%), Turkey (6.8%) and Peru (6.4%). In FY1998, the most important participants were Russia (10.7%), Argentina (8.2%), Peru (7.5%), Brazil (6.8%) and Pakistan (5.9%).

On 3.29.1999, the Miga Board of Governors approved Resolution no. 57, recommending that a SDR 785,59 capital increase be authorized. Brazilian participation in this first capital replenishment is 1,127 shares, in a total amount of SDR 11.27 million (previously, the country had 1,479 shares, equivalent o SDR 14.79 million).

The International Centre for Settlement of Investment Disputes (ICSID), which was created in 1966, has the objective of ensuring a flow of external financing to the developing countries by providing them with the needed arbitration and conciliation instruments. Up to FY1999, the total number of cases registered came to 65, of which 11 occurred only in the final fiscal period. The process of Brazil's entry into ICSID is now under consideration at the Legal Department of the National Treasury.

Interamerican Development Bank Group (IDB)

In 1999, in Rio de Janeiro, the IDB commemorated 40 years of activities and has clearly consolidated its position as the principal multilateral development institution active in Latin America and the Caribbean. For the sixth consecutive year, the IDB led all other institutions in the volume of credits granted to the region, having registered total 1999 loans of about US$ 9.5 billion, second only to the record level of US$ 10 billion set in the immediately previous year. In these 40 years, the IDB Group channeled US$ 104.6 billion in loans and guaranties to the countries of Latin America and the Caribbean, of which US$ 21.9 billion were reserved to Brazil.

Based on the guidelines defined in the 8th Capital Increase Agreement of the Bank (IDB-8) in 1999, 45% of the volume of the institution's loans were set aside for the social sector. State reform and modernization received 24.7% and the productive sector was targeted with 16.5%. These percentages include the so-called emergency programs, which are mostly aimed at coping with processes of economic stagnation, unemployment, inflation and growing poverty, all of which are foreseeable in the wake of economic crises.

In 1999, the IDB disbursed a total equivalent to US$ 8.4 billion, of which US$ 7.9 billion consisted of Ordinary Capital and US$ 440 million of the Fund for Special Operations, which is a branch of the IDB that operates with soft loans, and other funds. Most of the record volume of disbursements is explained by the emergency financing provided by the Bank. The principal characteristic of these operations is rapid disbursement once approval has been granted. Once US$ 2.3 billion in amortizations of principal and US$ 2.2 billion in charges on debts contracted by borrowers are deducted, the result is a positive cash flow of approximately US$ 3.9 billion in favor of the receiving countries.

In 1999, the Bank approved 13 financing operations for Brazil with Ordinary Capital resources, with a total value of US$ 4.8 billion, raising the accumulated total to US$ 21.9 billion. Of the total amount approved in the year under analysis, US$ 3.4 billion refer to IDB's participation in the Program of Financial Assistance to Brazil, US$ 100 million to guaranties and US$ 135 million to loans to the private sector. Aside from these operations, US$ 11.6 million in non-reimbursable technical cooperation also received approval. Disbursements came to an overall total of US$ 2.9 billion.

The Special Operations Fund (SOF) provided soft loans to the five countries at a relatively lower level of development in Latin America and the Caribbean. In 1999, 23 loans were approved in a total amount of US$ 417 million, with disbursements of US$ 430 million.

The Interamerican Investment Corporation is (IIC) an IDB affiliate founded in 1984 with the mission of fostering economic development in Latin America and the Caribbean through capital investments, loans and consulting services provided to small and medium businesses in the region. With Belize's entry in 1999, the Corporation came to have 37 member countries, of which 26 are located in Latin America and the Caribbean.

Twenty two operations were approved in 1999 with a total value of US$ 192 million, of which about 89% consisted of long-term financing and 11% of equity investments (stock participation). More than 75% of the total approved was channeled to countries of lesser relative investment. No operations were approved for Brazil in 1999.

On 7.21.1999, the Board of Governors of the IIC approved the Corporation's first capital increase, raising authorized capital by US$ 500 million. Brazil's share in the subscription came to 5,712 shares (US$ 57.12 million), corresponding to participation of 11.42% in the capital increase.

The Multilateral Investment Fund is an autonomous fund managed by the IDB and was founded in 1993. Its objective is to foster the development of the private sector, providing better opportunities for private investment in the developing countries of Latin America and the Caribbean.

The Fund's assistance is mostly on a no-return basis and is focused basically on small businesses. In 1999, financing for 89 projects received approval in a total value of US$ 132 million. Five projects were approved for Brazil worth approximately US$ 8.5 million, of which about US$ 5.5 million were no-return operations.

African Development Bank Group (ADB/ADF)

The ADB/ADF Group is composed of the African Development Bank (ADB), the African Development Fund (ADF) and the Nigerian Trust Fund (NTF).

The ADB is a multilateral development bank that now has 77 member countries, of which 53 are regional members and 24 are from outside the region. The objective of the institution is to contribute to the economic and social development of Africa. With the 5th General Capital Increase of the Bank on 9.30.1999, the authorized capital increased by approximately US$ 6.8 billion. Brazil's participation in the increase came to 3,715 shares totaling SDR 37.15, corresponding to 0.44% of the total subscribed. The amount still to be paid-in is equivalent to SDR 2.23 million.

Loans approved by the ADB in 1999 came to SDR 777.2 million and were mostly channeled into reducing poverty in the region. These operations were principally focused on the sector of farming and rural development, combating corruption and improving public management. ADB disbursements came to a total of SDR 528 million.

In much the same way as other organizations, the ADB also participates in the debt relief initiative for highly indebted poor countries and has provided assistance to Uganda and, more recently, Mozambique.

The ADF is a fund that has 79 members including 53 in the region of Africa and 26 from outside the region. The Fund provides soft loans (zero interest) to low income regional members and its activities are concentrated on reducing poverty. In December 1998, total capital subscribed by ADF members came to SDR 9.3 billion. This amount was later increased through the 8th Replenishment, in which overall capital was raised by approximately SDR 2.2 billion.

Brazil's share of the burden is equivalent to 0.52% of the ADF total. The Brazilian contribution to ADF-8 came to an amount equivalent to SDR 11.44 million.

Loans approved by the Fund in 1999 reached a level of SDR 459.64 million and were focused mostly on agriculture, the rural sector and social investments.

Continuing the institutional reform initiated in 1995, the ADB/ADF Group instituted the Group Vision Statement, an effort designed to enhance the organization's competitiveness on the world scene.

International Fund for Agricultural Development (Ifad)

Ifad's objective is to provide the special conditions required to mobilize financial resources required for agricultural development, principally for the production of foodstuffs in the developing member countries.

The Institution has 161 members and, since its creation in 1977, has financed 547 projects, with commitments of US$ 6.8 billion in loans and donations. In 1999, Ifad approved 29 new projects worth a total of US$ 419.7 million, while total disbursements of loans and donations moved to US$ 314.1 million. SubSaharan Africa is still the largest beneficiary, followed by Asia, North Africa and Latin America.

On 2.17.1999, the Consultative Committee was created to proceed with the 5th Replenishment of Resources of the Institution, scheduled for completion in 2000. Current funding is a combination of past replenishments, dividends earned and returns on operations.

Since 1998, the organization has participated in the HIPC Initiative and has approved assistance to seven countries with a total value of US$ 24.5 million. In Latin America, the institution has provided support to regional initiatives and has initiated the operations of Fidamerica, which consists of an electronic communications network joining the regional agents of various countries so that they can communicate among themselves on matters of interest to these nations.

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

Fonplata was founded in 1974 with the objective of meeting financing needs consequent upon the fostering of the economic development and physical integration of the River Plate Basin and its area of influence. The member countries are Argentina, Bolivia, Brazil, Paraguay and Uruguay.

Brazil and Argentina participate with 3.33% of capital each, while Bolivia, Paraguay and Uruguay participate with 11.11% each. Total subscribed capital on 12.31.1999 came to US$ 308 million, with paid-in capital of US$ 268 million and callable capital worth US$ 40 million.

Since the start of its activities up to 12.31.1999, 53 loans were approved with a total value of US$ 380.1 million. Brazil contracted four loans with a total value of US$ 37 million, corresponding to 9.7% of the organization's loans.

In providing loans and technical cooperation, Fonplata grants preferential treatment to countries at lesser relative levels of development (Bolivia, Paraguay and Uruguay), having channeled 74% of its total financing to these countries up to 12.31.1999. In 1999, the organization approved three loans in a total value of US$ 13.1 million and disbursed a total of US$ 25.5 million to various projects.

Andean Development Corporation (ADC)

The Andean Development Corporation is a financial institution created in 1970 by the Andean Community of Nations (former Andean Pact), with the purpose of supporting development efforts in the member countries, as well as undertakings targeted at regional integration.

The Corporation is composed of regional partners (Bolivia, Colombia, Ecuador, Peru and Venezuela) and has the stock participation of extra-regional countries (Brazil, Chile, Jamaica, Mexico, Panama, Paraguay and Trinidad and Tobago) and 22 private banks from the Andean region.

In the period between February and August of the year under analysis, the Corporation issued securities on the international financial market that made it possible to raise about US$ 1.1 billion.

Brazil has been an extra-regional member since 1995 when it subscribed 2,700 "C" series shares worth US$ 25 million, an amount that has been fully paid-in. The Brazilian portfolio with the institution has a total value of US$ 337 million, involving financing for paving the BR-174 highway (US$ 86 million), the Brazil-Bolivia Gas Pipeline Energy Integration Project (US$ 165 million) and the Brazilian-Venezuela Electricity Interconnection Project (US$ 86 million). To these operations one should add approval of other short-term loans to the private sector worth US$ 381.3 million.

At the end of 1998, Brazil agreed to increase its participation in the Corporation by subscribing 2,512 new shares worth approximately US$ 25 million, already fully paid-in. With this, the margins for contracting new loans were increased, thus contributing to economic development, the building of stronger relations with countries along the northern border and an enhanced process of regional integration. Ratification of this increase is now under examination at the National Congress.

Common Market of the South (Mercosul)

During the course of 1999, Mercosul went through its most serious difficulties since its founding. The changes in Brazil's exchange policy had powerful repercussions on the economies of the other member states. Despite the climate of uncertainty, Mercosul authorities demonstrated their conviction that the bloc is a long-term project and adopted measures designed to strengthen it to the point of being able to cope with such challenges.

Acting through Work Subgroup no. 4 (SGT-4), Banco Central's role in the Mercosul framework is focused on national coordination of financial matters. The treatment of these themes impacts the various efforts being made to achieve economic integration, including such undertakings as trade negotiations within the World Trade Organization framework, which include trade in financial services; the process of the Free Trade Area of the Americas (FTAA) which also includes trade in services; as well as the various negotiating processes going forward between Mercosul and other economic blocs or countries.

Evolution of negotiations on financial affairs

Once the commitment to the bloc had been reiterated, two work groups were created on 6.15.1999 with the aim of deepening the Customs Union and creating the Common Market. These groups were as follows: i) the High Level Work Group for Macroeconomic Policy Coordination – composed of an Undersecretary of Economy and a Central Bank director from each state involved, with the objective of analyzing the economic policies of the member states, with particular emphasis on the question of the sustainability of public and external accounts, as well as alternative proposals and coordinated macroeconomic practices; ii) the Ad Hoc Group for Monitoring the Economic and Commercial Situation, with the objective of analyzing the evolution of intra and extra-zone trade flows.

The Montevideo Protocol on the Service Trade in Mercosul, which was signed on 12.15.1997, set a period of 10 years for liberalization of the service trade within the bloc, including financial services. Banco Central do Brasil is a component of the Mercosul Service Group, which has the task of making this goal feasible. In 1999, the first negotiating round in the framework of this group was concluded.

On 8.26.1999, the Protocol of Cooperation between Banco Central do Brasil and the Superintendency of Financial and Exchange Entities of the Central Bank of the Argentine Republic was signed in Buenos Aires and has the goal of establishing a system of cooperation in the sector of bank inspection.

The major themes dealt with by SGT-4 in 1999 were the harmonization of banking norms and procedures; consolidated global banking supervision; procedures for information interchanges among financial systems; operations with derivatives; money laundering; harmonization of operating conditions in the area of insurance and improvement in capital market norms. On 11.18.1999. the Common Market Group approved Resolution no. 84/1999, which defined the 2000/2001 negotiating agenda of SGT-4, which is to guide the activities of the subgroup in the next two years.

One important advance in financial matters is defined in the Decisions of the Common Market Council no. 8/1999 - "Cooperation Agreement among Insurance Sector Supervisory Authorities of the Mercosul Member States" and no. 9/1999 - "Benchmark Agreement on Conditions of Access to Insurance Companies with Emphasis on Branch Office Access", and GMC Resolution no. 83/1999 - "Glossary of Basic Preliminary Technical Terms on Insurance in the Mercosul Framework".

Mercosul external relations

On June 28 and 29, 1999, in Rio de Janeiro, the "Cimeira" Meeting of Latin America and the Caribbean – European Union was held, with the presence of the Heads of State of the different countries of these regions. The objective of the meeting was to strengthen political, economic and cultural ties between the two regions. The Rio Declaration noted the themes developed: international economic cooperation, trade liberalization, regional integration and incentives to capital flows and productive investments.

In its 1999 activities, GMC examined the different aspects of Mercosul foreign relations with the following countries and blocs: Bolivia, Canada, Chile, South Korea, Cuba, Israel, Mexico, Free Trade Area of the Americas, Andean Community, World Trade Organization and European Union.

Free Trade Area of the Americas (FTAA)

The FTAA initiative began in December 1994 in Miami, with the participation of 34 countries. The objective was to create a hemisphere-wide program that would have the task of eliminating barriers to trade in goods and services and investments as of 2005.

Banco Central do Brasil participates in the FTAA negotiations in two areas: the Negotiating Group on Services (GNSV) and the Negotiating Group on Investments (GNIN). In November 1999, the Negotiating Groups were instructed to prepare the basic texts of each one of the chapters to be included in the FTAA Agreement.

World Trade Organization (WTO)

In the WTO framework, Banco Central is involved in discussions of the themes of trade in financial services, which are part of the General Agreement on Trade in Services (GATS).

The start of the new Round of Multilateral Trade Negotiations known as the Millenium Round, which was the major item on the agenda of the III WTO Ministerial Conference, held in Seattle, USA, in December 1999, was not implemented. The only decision taken was to continue the preparatory work within the framework of the General Council of Representatives.

In the meantime, the negotiations carried out in the Uruguay Round remain in effect and GATS recommends continuation of the process of liberalization of trade in services, including financial services.

Table 7.1 - Comparative table of the major international agencies

US$ million

Agency	Number of members			Subscribed capital - total			Brazilian subscribed capital		
	1996	1997	1998	1996	1997	1998	1996	1997	1998
World Bank Group [1/]				275 178	276 309	284 909	3 158	3 153	3 163
IBRD	180	180	181	180 630	182 426	186 436	3 009	3 009	3 009
IDA	159	159	160	91 413	90 587	95 055	94	92	102
IFC	170	170	174	2 076	2 229	2 337	39	36	36
Miga	134	141	145	1 059	1 067	1 081	16	16	16
IDB Group				81 095	87 760	94 422	8 984	9 616	10 249
IDB	46	46	46	80 895	87 557	94 219	8 961	9 593	10 226
IIC	34	35	36	200	203	203	23	23	23
IMF [2/]	181	181	182	197 161	197 161	285 884	2 945	2 945	4 119

(continues)

Table 7.1 - Comparative table of the major international agencies

(concluded) US$ million

Agency	Total loans approved			Loans to Brazil - total approved		
	1996	1997	1998	1996	1997	1998
World Bank Group [1/]	30 498	26 483	35 067	1 600	2 332	2 547
IBRD	14 656	14 525	21 086	875	993	1 618
IDA	6 861	4 622	7 435	0	0	0
IFC	8 119	6 722	5 910	684	1 297	930
Miga	862	614	636	41	42	0
IDB Group	6 838	6 199	10 286	1 704	1 499	1 642
IDB	6 766	6 048	10 063	1 700	1 477	1 626
IIC	72	151	223	4	22	16
IMF [2/]	26 000	7 220	43 144	0	0	0

Source: Agencies' yearly reports

1/ Data refer to the fiscal year of the Group: July 1st to June 30th.
2/ Amounts referring to IMF's fiscal year: May 1st to April 30th.

Note: SDR/US$ (3.29.1999) = 1.35673