

5. External Sector

5.1 International outlook

The prospects for the world economy are, currently, more favorable than those from the beginning of the year. It is worth noting the increased projection for the world GDP growth in 1999, from 2.2% to 2.3%, carried out by the IMF; the signs of recovery in Asian economies; improving expectations for the inflation trajectory in emerging countries; and the stability of prices in developed countries. Additionally, the negative effects of the financial difficulties faced by Russia and the changes in the Brazilian exchange rate regime did not have the expected dimension, with a relative tranquility in financial markets in the recent period.

The indicators of the US economy maintain a favorable trend evolution, but concerns regarding the sustainability of this prosperity cycle implied changes in monetary policy, with the announcement, in May, of an upward bias in basic interest rates. Among the other developed countries, Japan shows that it may be on the path to recover economic activity. In the Euro Area, given the moderate levels of growth, interest rates declined in April. In late 1998 and early 1999, the US and Europe registered the lowest interest rates in the last three decades.

Regarding the change in the Brazilian exchange rate regime, the greatest impact was perceived by Argentina, a country with which Brazil maintains close commercial relations. In this scenario, a growth of 4% is expected for Latin America in the second half of 1999, offsetting the estimated negative performance for the first half.

With regard to the Chinese economy, growth rates are expected to decelerate. However, the expansionary fiscal policy and the accommodative monetary policy aim to stimulate aggregate demand, partially offsetting the reduction in the value of exports. The deterioration of the external accounts – trade balance and investment and credit flows – press for possible exchange rate correction in that country.

United States

Gross Domestic Product^{1/}

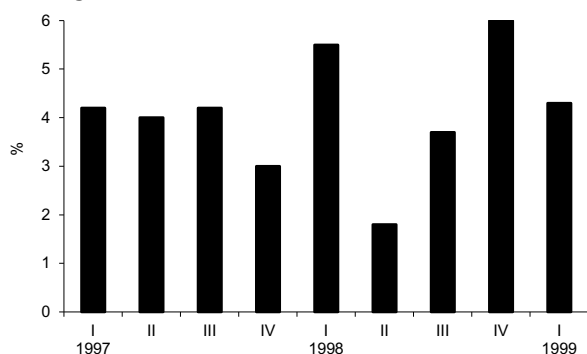
	(% p.a.)			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
1997	4.2	4.0	4.2	3.0
1998	5.5	1.8	3.7	6.0
1999	4.3			

Source: US Department of Trade, 6.25.99

1/ Annualized quarterly growth, seasonally adjusted.

The process of technological innovation experienced by the US economy in recent years has resulted in increased labor productivity, higher profit margins and expansion of investments. The high pace of growth in labor productivity allowed labor absorption without significant pressure on production costs.

GDP growth^{1/}



1/ Annualized quarterly growth, seasonally adjusted.

Simultaneously, the rise in profit margins stimulated new investments. As the magnitude of these investments has also been influenced by the nature of the technology used, the aggregate supply has expanded at a faster rate than demand, so that the economy has operated, in recent years, with a significant level of economic slack.

In addition to these structural determinants, the reduction in the prices of imported commodities and the appreciated exchange rate have contributed, as temporary factors, to the growth of the US economy without inflationary pressures.

However, this long period of growth tends to cause imbalances that contribute to the exhaustion of the process, with a break in the expansion trend and probable reversal of the inflationary trajectory. According to the Federal Reserve Bank, some channels of pressure on the price level behavior should be considered.

The first imbalance is the high level of demand, evidenced by the households' negative savings rate, due to the "wealth effect", which probably came from the appreciation of stock prices.

Additionally, the increasing absorption of labor supply cannot persist without pressure, at some point, on production costs, even if the sharp productivity increase in recent years is taken into account. Improved productivity has favored wage gains without negative influence on the price level. In this sense, although the increase in the unit labor cost should initially pressure profit margins, there may be undesired impacts on the price level.

The third focus is on the sustainability of the growing trade and current account deficits, which involve costs difficult to maintain in the long run.

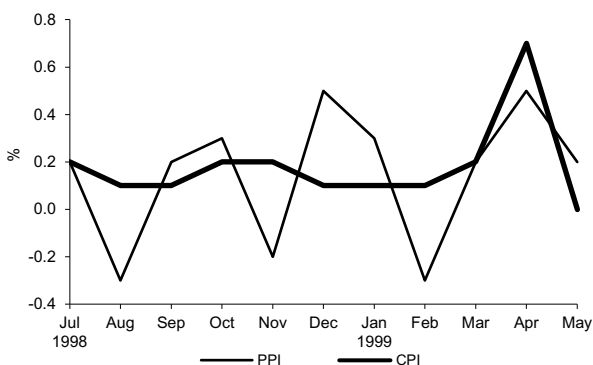
Inflation rates

	Change % monthly			
	PPI	PPI-Core	CPI	CPI-Core
1998 Jul	0.2	0.1	0.2	0.2
Aug	-0.3	-0.1	0.1	0.2
Sep	0.2	0.4	0.1	0.2
Oct	0.3	0.1	0.2	0.2
Nov	-0.2	0.1	0.2	0.2
Dec	0.5	1.0	0.1	0.3
1999 Jan	0.3	-0.1	0.1	0.1
Feb	-0.3	0.0	0.1	0.1
Mar	0.2	0.0	0.2	0.1
Apr	0.5	0.1	0.7	0.4
May	0.2	0.1	0.0	0.1

Source: FMI and Reuters

Finally, the prospects for increased inflation levels imply a rise in the risk premium in long-term interest rates, influencing short-term rates. In this scenario, this represents the fourth channel by which the increase in the cost of the capital factor will discourage new investments. The reduction in the level of investment will result in an increased unit labor cost, reinforcing this channel of pressure on the price trajectory.

Monthly evolution of PPI and CPI



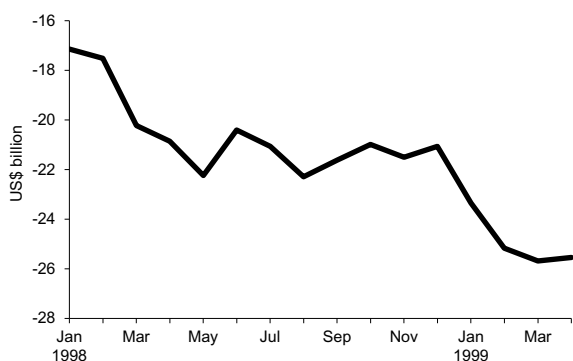
In the period from January to March, the Consumer Price Index (CPI-Core) variation stood at 0.1% in each month. In April, this index reached 0.4%. This increase, as in the case of other indexes (prices of imported products, core of the intermediate Producer Price Index (PPI-Core) and unit labor cost), does not suggest a reversal of the inflationary trajectory, since in May the index returned to the first quarter level.

Trade Balance

	US\$ billion		
	Exports	Imports	Balance
1998 Jan	57.7	74.9	-17.1
Feb	56.5	74.0	-17.5
Mar	56.4	76.6	-20.2
Apr	55.3	76.2	-20.9
May	54.9	77.1	-22.2
Jun	55.0	75.4	-20.4
Jul	54.2	75.2	-21.1
Aug	54.6	76.9	-22.3
Sep	55.5	77.1	-21.6
Oct	57.2	78.2	-21.0
Nov	57.0	78.5	-21.5
Dec	56.0	77.1	-21.1
1999 Jan	55.3	78.6	-23.3
Feb	54.7	79.9	-25.2
Mar	54.3	80.0	-25.7
Apr	55.1	80.7	-25.5

Source: US Department of Trade
1/ Goods.

Trade Balance



The level of activity, however, remains high. Considering the variation in 1999Q1 in relation to 1998Q4, the US GDP showed an annualized growth of 4.49%.

The trade deficit maintained the upward trend in March, contributing to increase the current account deficit from 2.8% of GDP, in 1998Q4, to 3.1% of GDP in 1999Q1, the worst proportion since 1987. The trade balance in April stood at the same level of March, US\$25.5 billion, with expansion of both exports and imports, likely reflecting the evolution of international prices of oil and metal commodities.

Based on the scenario projected until the first half of May, the Federal Reserve maintained the target for the basic interest rate, but converted the bias from neutral to upward. This led to the increase of long-term interest rates, with the market trying to adjust to this new scenario, even partially. Expectations regarding the definition of monetary policy tightening in the coming months should be based on any evidence of pressure on the labor market, significant growth in demand for production and sharp increases in the value of financial assets, factors that may affect the

perception of the members of the Open Market Committee regarding the need to adopt a preventive measure.

It should be noted that the recovery of the global economy, although gradual, tends to increase the demand for US products, which, without the compensatory reduction in domestic demand, may result in additional pressures on the labor market.

Japan

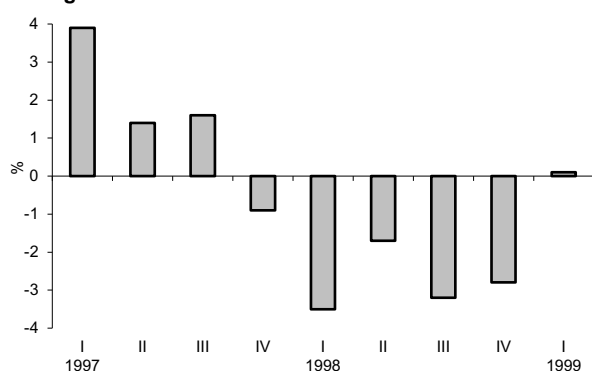
GDP growth^{1/}

	% p.a.			
	1° Q	2° Q	3° Q	4° Q
1997	3.9	1.4	1.6	-0.9
1998	-3.5	-1.7	-3.2	-2.8
1999	0.1			

Source: Bloomberg

1/ Quarterly variation over the previous year.

GDP growth



The recent indicators of the Japanese economy are not conclusive with regard to the effective recovery of the level of activity, but point to a probable recovery of the economy. There was a reduction in the risk premium due to the increase in the level of business confidence and progress in the recapitalization and restructuring of the financial system. Industrial production registered the sharpest expansion in the last two years, with annualized growth of 2.5% in 1999Q1, while the real seasonally adjusted GDP growth in 1999Q1, compared to 1998Q4, reached 1.9%. However, this evolution is still likely reflecting the increase in orders for capital goods as a result of the economic stimulus package adopted in November, since public investments rose 47.9% in 1999Q1, compared with the same period in the previous year, and private investments grew by 10.5%. Thus, the expansionary fiscal policy should have a decreasing effect until the end of the year.

The production of consumer goods continued to follow an unfavorable trajectory, with expectations of contraction in April. However household expenditures and commercial sales are expected to show improved results in the April indexes, despite the contraction occurred in March. It should be noted that, in the coming months, the level of employment tends to be contracted due to the corporate restructuring process, with the purpose of recovering the level of profitability of the productive sector.

In this scenario, therefore, there is no prospect of a significant recovery in the aggregate demand. The OECD projects GDP contraction of 0.8% in the first half of the year compared with the second half of 1998. In 1999, the GDP is expected to contract by 1%.

The adoption of fiscal measures aimed to stimulate the economy implied an increase in government debt. The expected announcement of budget supplementation should only be made after September, when the economy indicators for the second quarter will be available. However, on June 11, a new set of measures to stimulate the economy was released, comprising additional initiatives to reduce unemployment and accelerate the industrial restructuring process. The implementation of these measures, whose detailed timetable has not been presented, will imply an estimated cost of JPY 500 billion (US\$4.1 billion).

Euro Area

After registering a slowdown in the level of activity at the end of 1998, economic indicators in the Euro Area show a relative recovery. Exports are growing as a result of the beginning of the recovery process in countries that have experienced crises in recent years, which favors the performance of the industrial sector. It should be noted that, despite the recent slowdown in economic activity, there was no increase in the unemployment level.

The performance of civil construction should also contribute significantly to the expansion of GDP in the Euro Area, with estimated growth of around 1%, 2% and 3% for the next three quarters.

In April, given the low levels of inflation and the slowdown in economic activity, the European Central Bank (ECB) reduced interest rates. However, a further decline in the rate in the coming months is unlikely, since the effects of the measures adopted have not yet been configured.

Currently, the main concerns regarding the Euro Area refer to the ability to maintain national fiscal adjustment policies, in addition to incipient signs of inflation in some countries in the region. Simultaneously, discussions on the need for structural reforms aimed at making the labor market more flexible and increasing productivity have intensified.

Argentina

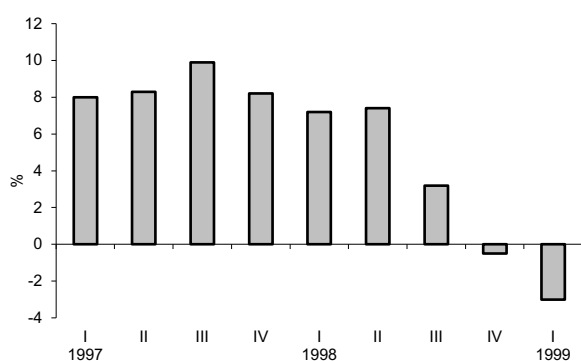
GDP^{1/}

	% p.a.			
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
1997	8.0	8.3	9.9	8.2
1998	7.2	7.4	3.2	-0.5
1999	-3.0			

Source: Bloomberg

1/ Quarterly variation over the previous year.

GDP Growth



Trade Balance

	US\$ billion		
	Exports	Imports	Balance
1998 Jan	1.8	2.5	-0.8
Feb	1.9	2.3	-0.4
Mar	2.2	2.7	-0.5
Apr	2.5	2.8	-0.3
May	2.6	2.6	0.0
Jun	2.6	2.8	-0.3
Jul	2.3	3.0	-0.7
Aug	2.2	2.8	-0.5
Sep	2.1	2.6	-0.5
Oct	2.0	2.6	-0.7
Nov	1.9	2.5	-0.6
Dec	1.9	2.2	-0.3
1999 Jan	1.6	1.9	-0.4
Feb	1.5	1.9	-0.4
Mar	1.9	2.1	-0.2

Source: Fundación CEDEAL. Situación Latinoamericana

Argentina experienced a virtuous cycle in 1997 and in the first half of 1998, when GDP expansion reached 7.3%. In the second half of 1998, the economy's performance was affected by adverse external shocks, so that GDP growth reached only 1.2%, resulting in a 3.9% growth in the year.

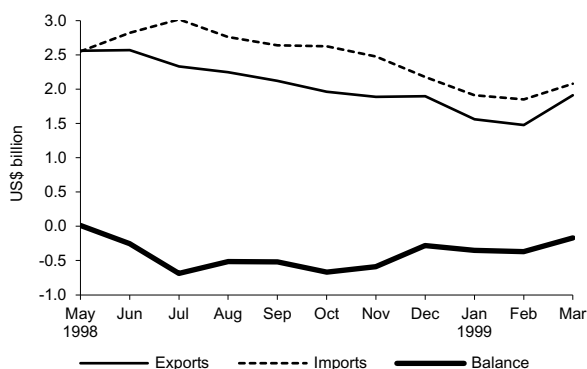
Among the external shocks faced in 1998, the first was the reduction in commodity prices, caused by the sharp deceleration of Asian economies, which implied a substantial reduction in the growth rate of the world economy.

Additionally, the difficulties faced by the Russian economy, which started in May 1998, resulted in the closure of the international financial market to emerging economies, raising the cost of foreign and domestic debt services. The third shock, of a commercial nature, came from the exchange rate fluctuation in Brazil.

In this scenario, despite the prospect of a recovery in the global economy, the effects of the exchange devaluation in Brazil on demand and prices of Argentinean imports tend to increase the current account deficit. However, in 1999Q1, the fall in imports was significant, partially offset by the weak performance of exports. Thus, the trade deficit in 1999Q1 reached US\$1 billion, compared with US\$1.7 billion in the same period in 1998.

The combination of these three shocks is expected to continue to impact negatively the evolution of Argentinean GDP. In this sense, according to Goldman Sachs, GDP is expected to contract by around 5% in the first half of 1999 and by 1.8% in the year. The

Trade Balance



better performance expected in the second half is due to the recent reduction in domestic interest rates, the expectation of recovery in the Brazilian economy and the effect of deflation, which makes the economy more competitive.

Statistics on industrial production in April showed a fall of 10.8% in twelve months, with a contraction of 9.2% in the first four months of the year. The automotive sector was the most affected, registering respective reductions of 50.4% and 51.3% in domestic sales and exports.

The 1999 recession is expected to have additional implications. The first is the stagnation of the bank credit stock, which has already been observed since the outbreak of the Russian crisis. In real terms, however, credit is unlikely to further decline as long as the financial system remains healthy. It is noteworthy that banks have been channeling credit to the public sector, reducing the contribution of consumption and private investments to the recovery of the economy.

The second implication refers to employment growth, which tends to show a substantial slowdown. The Monthly Survey of the Ministry of Labor indicates that the quarterly moving average of job growth in the greater Buenos Aires area, until March, compared with the same period of the previous year, reached -0.5%, compared with 5% in the same period of 1998.

Another aspect is the evolution of the current account deficit, which reached 5.1% of GDP in 1998. It should be noted that financing of over 60% of external requirements for 1999 is already secured. Furthermore, in addition to IMF support, Argentina has not stopped issuing sovereign bonds, regardless of these adverse conditions.

The industrial product registered a 11.5% contraction in March, compared with the same period of the previous year. The recovery in manufacturing production, which did not expand in April, tends to be affected by the unfavorable prospects arising from uncertainties in the electoral period.

In March, the consumer price index fell by 0.8% in relation to the previous month, the sharpest reduction since its creation in 1988.

The fiscal deficit agreed with the IMF at the end of 1998, US\$2.95 billion, was increased to US\$5 billion, due to the downward revisions of the economic growth and the expansion of the domestic debt financial service. This reflects international financial difficulties that led to the increase of domestic interest rates by 1,000 basis points. The agreement with the IMF also provides for the edition of the Fiscal Responsibility Law, establishing limits for the growth of expenses and indebtedness, and the elaboration of a project for the social security reform.

China

GDP

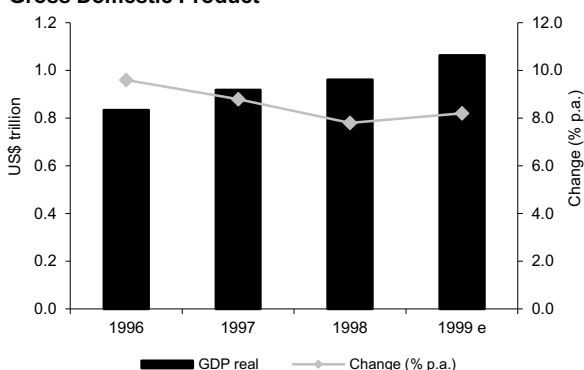
	1996	1997	1998	1999 e
GDP real (US\$ trillion)	0.8	0.9	1.0	1.1
Change (% p.a.)	9.6	8.8	7.8	8.2

Source: Institute of International Finance Inc.

e: estimated

Chinese aggregate demand has been impacted in recent years by the contraction of external demand, motivated by the currency crisis in the countries of Southeast Asia and the stagnation of the Japanese economy, considering that Asia, including Japan, absorbs around 44% of China's exports.

Gross Domestic Product



In the second half of 1998, the Chinese government promoted, via state-owned companies, the expansion of demand by encouraging investments in infrastructure. As a consequence, there was an increase in the fiscal deficit, which was financed by the growth of public debt. In addition, interest rates were reduced to stimulate private consumption and investment.

As a result, after the slowdown in the first half of 1998, there was an increase in GDP, in response to fiscal and monetary policy measures. China's GDP totaled US\$202 billion in 1999Q1, 8.2% higher than in 1998Q1.

Similarly, the growth of industrial production maintained an upward trend in 1999Q1, reaching a level 10.6% higher than in the same period of the previous year.

It is noteworthy that the resumption of growth was hindered by the stagnation of foreign direct investments and the reversal of external private loans, which became negative in net terms. Additionally, the substitution of external demand for public demand was significant, while the response of the private sector to the reduction of interest rates was limited.

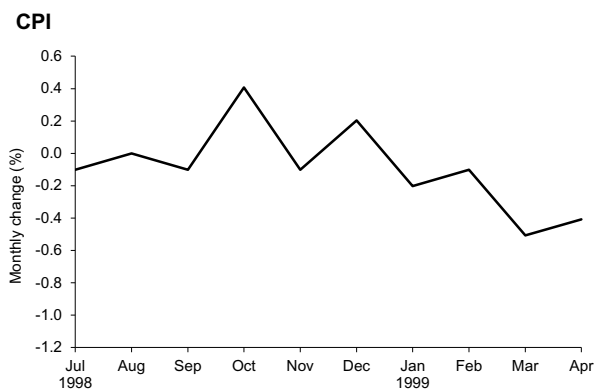
Thus, although the pace of GDP is still much above the world average, the deceleration observed in recent years has led to an increase in unemployment, from 2.6% in 1993 to 3.1% in 1997. The recovery observed in the second half of 1998 did not prevent unemployment from rising to 3.5% in the year.

In 1998, the consumer price index decreased by 1%. In January 1999, the

Inflation

		(% p.m.)
		CPI
1998	Jul	-0.1
	Aug	0.0
	Sep	-0.1
	Oct	0.4
	Nov	-0.1
	Dec	0.2
1999	Jan	-0.2
	Feb	-0.1
	Mar	-0.5
	Apr	-0.4

Source: Bloomberg



fall reached 0.2%, accentuated by the contraction of prices in February, 0.1%, and in March, 0.5%. The maintenance of the downward trend in consumer prices is expressed by the negative index 12-month accumulated variation of 1.21% up to April. This price index declines more slowly than the retail index, which fell by 2.7% over 1998.

Throughout 1998, monetary policy was expansionary. In this regard, basic interest rates and reserve requirements were reduced, in addition to the creation of special liquidity financial assistance lines, in order to stimulate the growth of domestic credit and money supply.

Following the growth of the means of payment and the policy of the People’s Bank of China, interest rates for 30 day interbank deposits decreased from 8.7% p.a., in 1998Q1, to 7% p.a., 5,1% p.a. and

6.3% p.a. in the following three quarters, and 5.9% p.a. in the 1999Q1. The continuation of this downward trend will depend, in particular, on the behavior of prices and the performance of the economy.

The fiscal deficit reached 2.2% of GDP in 1998, compared with 1.5% in 1997. This movement was due to the increase in expenditures from 13.3% to 14.5%, and in revenues, from 11.8% to 12.4%. The fiscal deficit was, to a great extent, financed by the issue of government bonds, with an increase in stocks from US\$29 billion in 1997 to US\$47 billion in 1998.

The official pronouncements of the Chinese government, as well as

Trade Balance

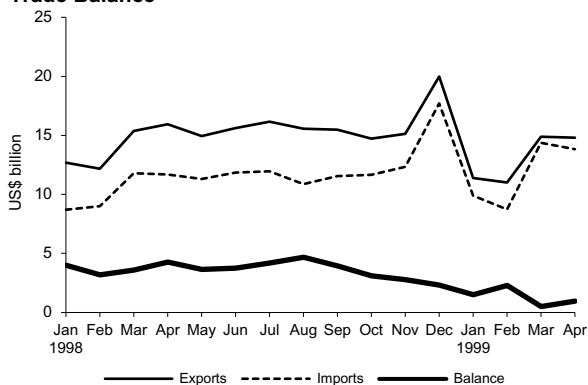
		US\$ billion		
		Exports	Imports	Balance
1998	Jan	12.7	8.7	4.0
	Feb	12.2	9.0	3.2
	Mar	15.4	11.8	3.6
	Apr	16.0	11.7	4.3
	May	14.9	11.3	3.6
	Jun	15.6	11.9	3.8
	Jul	16.2	12.0	4.2
	Aug	15.6	10.9	4.7
	Sep	15.5	11.5	3.9
	Oct	14.7	11.7	3.1
	Nov	15.1	12.3	2.8
	Dec	20.0	17.7	2.3
1999	Jan	11.4	9.9	1.5
	Feb	11.0	8.7	2.3
	Mar	14.9	14.4	0.5
	Apr	14.8	13.8	1.0

Source: JP Morgan. Emerging Markets Economic Indicators, 6.7.99

the approval of this year's fiscal budget, indicate that the expansionary fiscal and monetary policies observed in the second half of 1998 and in 1999Q1 will continue throughout the year. The government is planning to expand by US\$120 billion or 15% the loans from state-owned banks. These loans will be directed to small and medium-sized companies, exporting companies, infrastructure projects and consumer credit.

Chinese imports grew at an average annual rate of 8.4% between 1994 and 1997, at a slower pace than GDP growth. In 1998, the value of imports decreased by 1%, reaching US\$135.2 billion, while the value of exports remained stagnant at around US\$184 billion, rising only 0.5%.

Trade Balance



In February, some measures were adopted to stimulate exports. Growth of exports at an average annual rate of 18.8% between 1994 and 1997 was identified as one of the main determinants of economic growth.

In the first four months of 1999, the Chinese trade balance reached a positive balance of US\$5.3

billion, compared with US\$15.1 billion in the same period of the previous year, as a result of the 7.5% drop in exports, which reached US\$56.3 billion, and the 13.6% increase in imports, which totaled US\$41.2 billion. The contraction in exports was attributed to reduced demand from neighboring countries. The increase in imports can be explained by the 22.7% expansion in investments in infrastructure implemented by state-owned companies and 10% in industrial production, compared with the observed in 1998Q1.

Foreign direct investments, which is the main source of financing for the Chinese economy, has not evolved as in previous years. In 1998, foreign direct investments totaled US\$45.6 billion, 0.7% more than in 1997, while in 1999Q1 it reached US\$7.34 billion, 14.6% lower than in the same period of the previous year.

According to the Institute of International Finance estimates, the inflow of net external loans to China was negative by US\$11.3 billion in 1998, reverting the positive balance of US\$21.4 billion obtained in the previous year. This result was due to net amortizations paid to commercial banks, US\$12.3 billion, and to other private creditors, US\$2.6 billion.

Since mid-1997, the exchange rate of the Chinese currency has been maintained at the fixed parity of RMB\$8.28 per US dollar. However, the unfavorable behavior of the trade balance and international capital flows may press for a devaluation, which tends to trigger a new round of devaluations of the currencies of the Southeast Asia countries.

5.2 Balance of payments

Unfavorable expectations regarding the balance of payments observed in January reflected in strong pressures on international reserves, resulting in a significant loss of foreign currency. In this context, the BCB allowed the exchange rate to fluctuate, promoting the change from the band exchange rate regime to the flexible exchange rate regime.

The balance of payments statistics calculated up to May reflect the changed conditions in terms of current transactions, with a contraction in imports of goods and services, such as international travel and transport, which resulted from the new exchange rate policy. The balance of payments also shows the change in the financing conditions of the external sector of the Brazilian economy. The capital account surplus reveals that the sources of long-term credit, which suffered a significant contraction at the beginning of the year, are recovering, while the movement of short-term capital shows signs of improvement.

In the period from January to May, the balance of payments registered a surplus of US\$16 million, with a deficit of US\$9.38 billion in the current account and a surplus of US\$9.4 billion in the capital account, including inflows US\$9.8 billion in compensatory capital, related to the release of the second installment of the adjustment operation with the IMF.

Between 1998 and 1999, the current account deficit fell from US\$10.9 billion to US\$9.4 billion, reflecting the improved trade result and the reduction in net remittances for the payment of services, excluding interest. Measured as a proportion of GDP, the current account deficit increased, reflecting the drop in the GDP evaluated in US dollar.

Trade balance

Trade balance - FOB

Period	Exports	Imports	Balance	US\$ million	
				Trade flow	
1999 May	4 386	4 074	312	8 460	
1998 May	4 609	4 734	-125	9 343	
Change %	-4.8	-13.9		-9.5	
1999 January-May	18 133	18 612	-479	36 745	
1998 January-May	21 082	23 108	-2 026	44 190	
Change %	-14.0	-19.5		-16.8	

Source: MDIC/Secex

In May, the trade balance registered a surplus of US\$312 million, with exports and imports reaching US\$4.4 billion and US\$4.1 billion, respectively. From January to May, the accumulated deficit stood at US\$479 million, lower than that observed in the same period in 1998 (US\$2 billion). Total trade flow in the period contracted from US\$44.2 billion in 1998 to US\$36.7 billion in 1999.

The trade balance has been reflecting the climate of uncertainty regarding the exchange rate path, mostly in the first quarter

of the year. In this context, in which importers and exporters postponed deals, exports totaled, until May, US\$18.1 billion, showing a drop of 14% in when compared with the same period of 1998.

Foreign sales were negatively influenced by the weak international demand and the consequent reduction in the prices of main commodities. The positive effects of the exchange rate devaluation on exports should occur as of the second half of the year, considering that their response usually occur with a greater lag than that of imports.

Exports by aggregate factor - FOB

Itemization	US\$ million					
	April			January-April		
	1998	1999	Ch. %	1998	1999	Ch. %
(A)	(B)	(B/A)	(C)	(D)	(D/C)	
Primary products	1 331	988	-25.8	3 882	3 257	-16.1
Industrial products	3 177	2 651	-16.6	12 354	10 230	-17.2
Semimanufactured	694	557	-19.7	2 729	2 335	-14.4
Manufactured	2 483	2 094	-15.7	9 625	7 895	-18.0
Special operations	63	66	4.8	237	260	9.7
Total	4 571	3 705	-18.9	16 473	13 747	-16.5

Source: MDIC/Secex

Considering the first four months of the year, the analysis of exports by aggregate factor indicates a general decline in all groups. In the basic products group, the increase in the shipped volume of some of the main goods was insufficient to compensate for the retraction in prices, leading to a 16.1% reduction in the group's revenue. It is worth noting that the decrease of US\$227 million in revenue from bran and soybeans was higher than the increase in exports of coffee beans (US\$135.3 million), beef (US\$43.3 million) and chicken (US\$32.7 million).

Exports of semi-manufactured products fell by 14.4%, compared with the same period of the previous year, while those of manufactured products decreased by 18%. In this group, the significant reduction in exports from the automotive sector (US\$689 million) stands out. This sector suffered strongly from the reduction in the demand from Latin America, its largest market. Other manufactured products contributed to the retraction in the group, especially cigarettes and cast iron, iron or steel pipes.

Even though the reaction of the exporting sector to the exchange rate devaluation is slow, it provided an income increase in national currency per unit of exported product, which will induce the reallocation of production factors to the sectors of tradable goods. Therefore, exports tend to increase.

**Exports and imports by Economic Blocs - FOB
January-April**

Itemization	US\$ million							
	Exports			Imports			Balance	
	1999	1998	Ch. %	1999	1998	Ch. %	1999	1998
European Union	4 202	4 821	-12.8	4 564	5 058	-9.8	-362	-237
Laia	2 951	4 471	-34.0	2 709	4 085	-33.7	242	386
Mercosul	2 020	2 851	-29.1	2 032	3 004	-32.4	-12	-153
Argentina	1 569	2 158	-27.3	1 744	2 577	-32.3	-175	-419
Paraguay	242	426	-43.2	75	102	-26.5	167	324
Uruguay	209	267	-21.7	213	325	-34.5	-4	-58
Other Laia	931	1 620	-42.5	677	1 081	-37.4	254	539
United States ^{1/}	3 035	3 038	-0.1	3 670	4 409	-16.8	-635	-1 371
Asia	1 550	1 715	-9.6	1 972	2 510	-21.4	-422	-795
Group of 5 ^{2/}	436	425	2.6	559	665	-15.9	-123	-240
Other	1 114	1 290	-13.6	1 413	1 845	-23.4	-299	-555
Eastern Europe	322	479	-32.8	173	202	-14.4	149	277
Africa	376	483	-22.2	475	676	-29.7	-99	-193
Middle East	446	461	-3.3	251	467	-46.3	195	-6
Other Blocs	865	1 005	-13.9	724	967	-25.1	141	38

Source: MDIC/Secex

1/ Includes Porto Rico.

2/ South Korea, Philippines, Indonesia, Malaysia and Thailand.

In relation to buying markets, there was a sharp reduction in sales to Laia (34%), especially to Mercosur, which, in accumulated terms until April, contracted US\$831 million (29.1%), reflecting the drop in trade with Argentina, accounting for more than 75% of exports to the group. Sales to the European Union also contracted (12.8%), while a relative stability was observed in exports to the US, as a result of the performance of domestic demand in that country.

The group of the five Asian countries mostly hit by financial imbalances in 1997 (Thailand, Indonesia, Malaysia, the Philippines and South Korea) has been recovering economic activity levels, gradually returning to the world trade. The Brazilian trade balance with those countries shows greater equilibrium in the first four months of 1999, with the deficit being reduced from US\$240 million to US\$123 million.

Imports by category of products - FOB

Itemization	US\$ million					
	April			January-April		
	1998	1999	Ch. %	1998	1999	Ch. %
	(A)	(B)	(B/A)	(C)	(D)	(D/C)
Consumer goods	889	667	-25.0	3 304	2 397	-27.5
Durable	427	321	-24.8	1 595	1 054	-33.9
Non-durable	462	346	-25.1	1 709	1 343	-21.4
Raw materials	369	284	-23.0	1 605	1 037	-35.4
Fuels	2 140	1 732	-19.1	8 569	6 914	-19.3
Capital goods	1 231	992	-19.4	4 896	4 190	-14.4
Total	4 629	3 675	-20.6	18 374	14 538	-20.9

Source: MDIC/Secex

Imports in the first four months of 1999 accumulated a contraction of 20.9% (US\$14.5 billion), compared with the same period of 1998 (US\$18.4 billion). This movement may be attributed to the slowdown in domestic activity and the new exchange rate policy. It should be noted that the devaluation of the exchange rate tends to impact imports more quickly than exports.

The contraction of imports was widespread in all product categories. Purchases of consumer goods decreased 27.5%, with durable goods decreasing 33.9% and non-durable goods, 21.4%. There was a decrease in the volume of purchased fuels, which produced less expenditure of foreign exchange – the fall would have been even greater if oil prices had remained constant in the year. Also, imports of raw materials (19.3%) and capital goods (14.4%) decreased. Recently, external purchases of medicines, mainly from

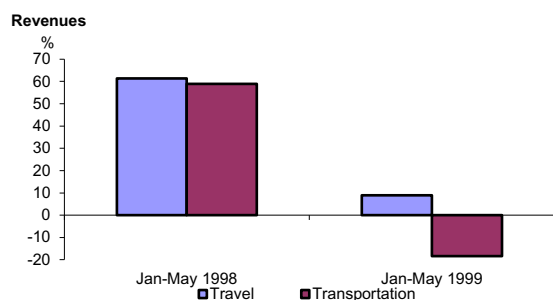
the US, have increased to meet the requirements of government health programs.

With regard to markets, the European Union continues to be the largest supplier to the country, with imports of US\$4.6 billion in the first four months, which represented a reduction of 9.8%. The sharpest drop, in absolute terms, occurred in relation to Laia (US\$1.4 billion; -33.7%), of which US\$1 billion only with Mercosur, especially Argentina. US purchases contracted 16.8%. It is also worth mentioning the decrease of US\$538 million in Brazilian imports from Asia, US\$216 million from the Middle East and US\$201 million from Africa.

Services and unilateral transfers

Revenues and expenses on international travel and transportation

% change over the same period in the previous year



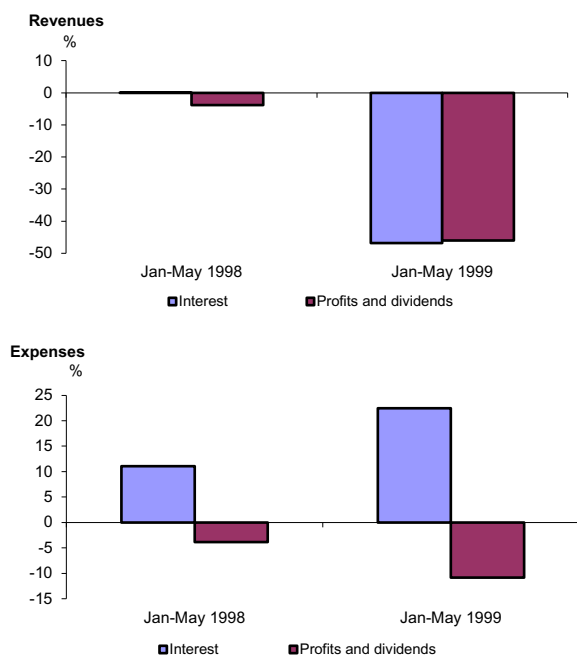
International travel expenses continue to decrease after the exchange rate devaluation, showing a strong sensitivity of tourism to price changes. From January to May, the decrease reached 47%, compared with the same period of 1998.

Expenses with transportation also showed a sharp contraction, given the impact on freight due to the reduction in imported volume, and the contraction of international travel, with a reduction in expenses with air tickets. The net result for the month, a deficit of US\$234 million, was 23.3% lower than in 1998. The reduction reached 15.4% up to May, compared with the previous year.

In the first five months of 1999, net remittances of capital gains (interest, profits and dividends) increased in relation to the same period of the previous year. This reflected the increase in net interest payments, as a result of the growth in foreign debt over 1998, as well as its average cost, coupled with the drop in international reserves. However, remittances of profits and dividends in the year were 6.6% lower, influenced by

Revenues and expenses on interest and dividends

% change over the same period in the previous year



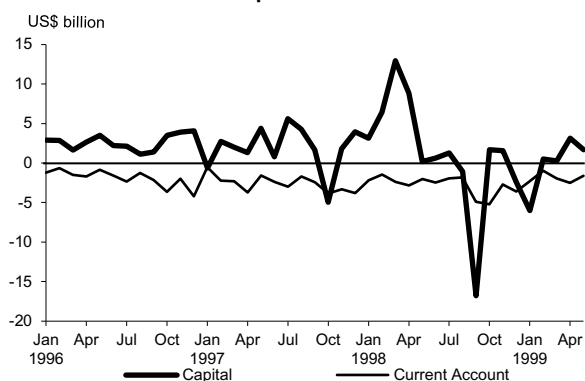
the climate of uncertainty due to the exchange rate flexibility. This decrease would be accentuated if the January flows were excluded.

In the period from January to May, net expenses with various services decreased 58%. This reduction was determined, in part, by the lower expenses with services related to factors of production, highlighting contractual commissions, administrative services and computer and information technology, items sensitive to variations in the activity level.

Unilateral transfers reached US\$142 million in May 1999, a level similar to that of May 1998. From January to May 1999, transfers reached US\$909 million, an increase of 24.9% compared with the same period of 1998, revealing the intensification in

the transfer of resources from Brazilians who work in other countries, motivated by the drop in US dollar value of national assets.

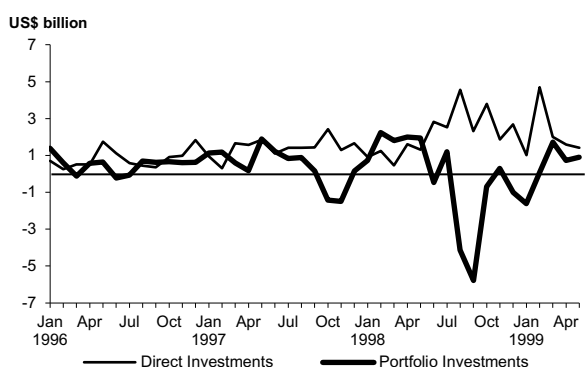
Current account and capital account



Capital account

In May, the capital account surplus reached US\$1.7 billion, totaling, in the period from January and May, US\$9.4 billion, including resources for regularization of the balance of payments from the IMF, BIS and BOJ, in the amount US\$9.8 billion.

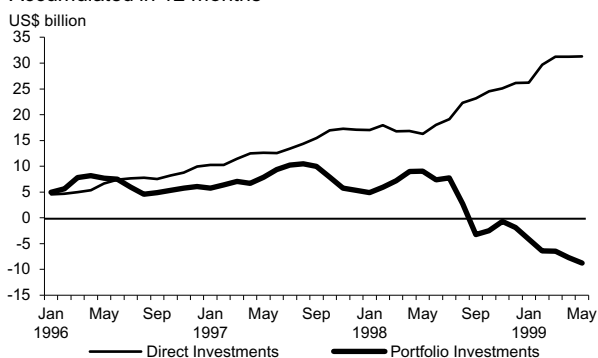
Direct and portfolio investments



Net inflow of foreign direct investments reached US\$1.4 billion in May, enough to finance 86% of the month's current account deficit. Net foreign direct investments accumulated in 12 months totaled US\$31.3 billion, of which US\$21.1 billion of autonomous resources and US\$10.2 billion for privatizations.

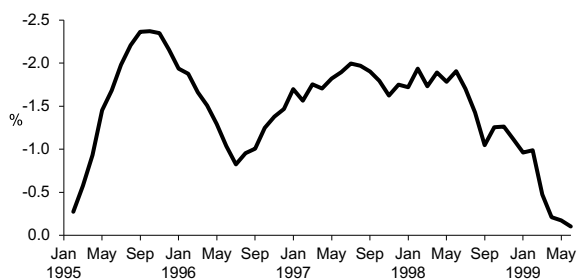
Direct and Portfolio Investments

Accumulated in 12 months



Net inflows of foreign portfolio investments reached US\$903 million in May, concentrated in investments in shares (Annexes I to V of Resolution 1,289, of 1987). The reversal, in March, of net outflows recorded in January and February, was consolidated as of April, so that portfolio investments in the country accumulated, in the year, net inflows of US\$1.8 billion.

Medium and long-term loans and financing, which had a negative balance of US\$8.9 billion in the first four months of the year, registered net inflows of US\$1.8 billion in May.

External borrowing requirements (percentage of GDP)^{1/}

^{1/} Defined as the sum of the current account balance and direct investment flows.

Net inflows of medium and long-term loans reached US\$2.2 billion in May, maintaining the trend started in the previous month, when the sequence of three months of disbursements below amortizations was interrupted.

Loan amortizations reached US\$ 908 million in May, significantly lower than the average for the first four months of the year, when they stood at US\$3.5 billion. This change was possible due to the exhaustion of the maturities resulting from the funding carried out at the end of 1997 and in the first three months of 1998, which benefited from the minimum average amortization term of one year. Payments remitted in May, as well as those spread over the next few months, refer to longer-term debt profile and are therefore less concentrated.

In May, net outflows of short-term capital reached US\$1.4 billion, with operations with institutions abroad responsible for remittances of US\$904 million. Loans to residents totaled US\$292 million, comprising net payments of US\$40 million, referring to loans for transfer to the agroindustrial sector, and net funding of US\$332 million related to the placement of securities and bank and intercompany loans with terms lower than 360 days.

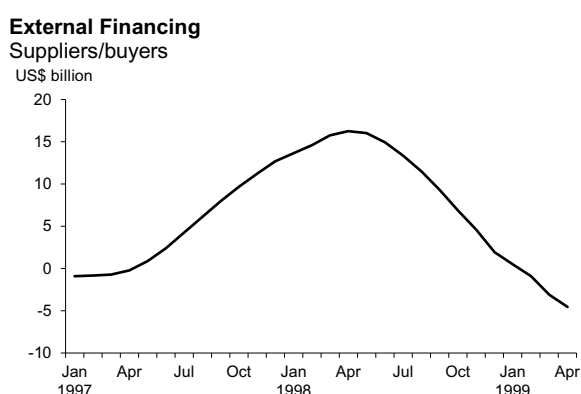
5.3 International reserves

The balance of international reserves, which reached US\$44.3 billion in the international liquidity concept and US\$43.4 billion in the cash concept, remained stable in May. In relation to March, the increase of US\$10.5 billion was due to BCB external operations in April, providing inflows of US\$11.9 billion, as a result of the disbursement of US\$9.8 billion under the Financial Assistance Program to Brazil, and US\$2 billion related to the placement of the Global 2004 bonus.



In June, up to the 25th, reserves reached US\$42.8 billion in the international liquidity concept, US\$1.5 billion lower than at the end of May. The variation was mostly due to the decision of the Brazilian government to anticipate the payment of interest (US\$22 million) and principal (US\$1.4 billion) to BIS and the Bank of Japan. The payment of the principal implied a reduction in the obligations with these institutions, without impact, therefore, on net reserves. In fact, this payment was brought forward due to the improvement in non-compensatory financing conditions.

5.4 External debt



The total external debt in April increased by US\$11.1 billion, with expansion of US\$12.1 billion in medium and long-term debt and decrease of US\$1 billion in short-term debt. The sharpest increase occurred in the non-financial public sector debt, due to the withdrawal of the second installment of the Financial Assistance Program to Brazil (US\$9.8 billion) and the raising of US\$2 billion through the placement of the Global 2004 bonus.

The medium and long-term private sector debt, which had been on a downward trend since the beginning of the year, showed a slight increase

compared with March, driven by funding through the placement of bonds and intercompany loans, which offset the lower volume of financing resulting from reduced imports. The short-term external debt, mostly composed of trade credit lines, also fell, following the contraction of the trade flow.

Conclusion

Although the trade balance has been more favorable, values have not yet reached the expected levels. In this sense, the performance of

Trade balance by aggregate factor - Jan/May - 1999

Effects of price variations of main products

Itemization	Exports	Imports	US\$ million - FOB
			Balance
At current prices	18 133	18 605	-472
At Dec/1998 prices	18 599	17 858	741
Difference	465	-748	1 213

Source: MDIC/Secex

exports should be assessed according to the lagged response to variations in the exchange rate and in the domestic level of demand, as well as the reduction in the level of world demand and decreased prices of commodities produced by the country. Imports, in turn, tend to be influenced by the level of domestic activity and the fluctuation of the exchange rate with a greater degree of contemporaneity. Thus, its evolution has reflected the lower GDP decline,

while responding rapidly to the exchange devaluation.

It should be noted that the reduction in imports tends to affect financing disbursements, contributing to the occurrence of net outflows of funds in this segment.

Other international capital flows to the country have shown signs of recovery. Foreign investments aimed at portfolio investments have reversed the outward movement, while medium and long term funding of resources has increased. Inflows of foreign direct investments have not responded to the turbulence of the external scenario in recent months, maintaining the pattern registered in the last year.

International reserves returned to the level of US\$40 billion registered in 1998Q3, largely reflecting disbursements made under the International Financial Assistance Agreement coordinated by the IMF.