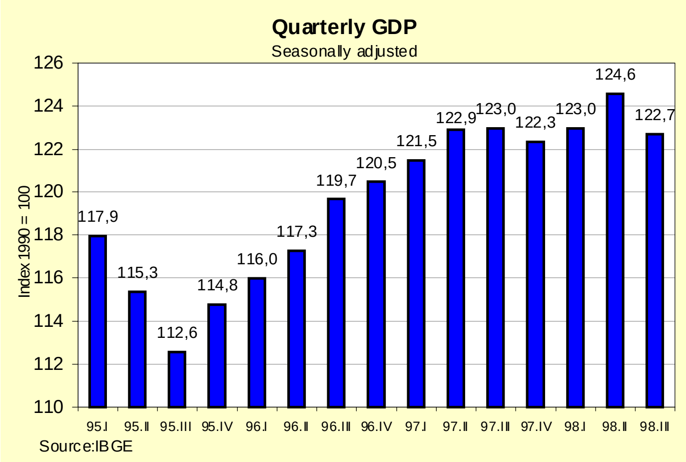
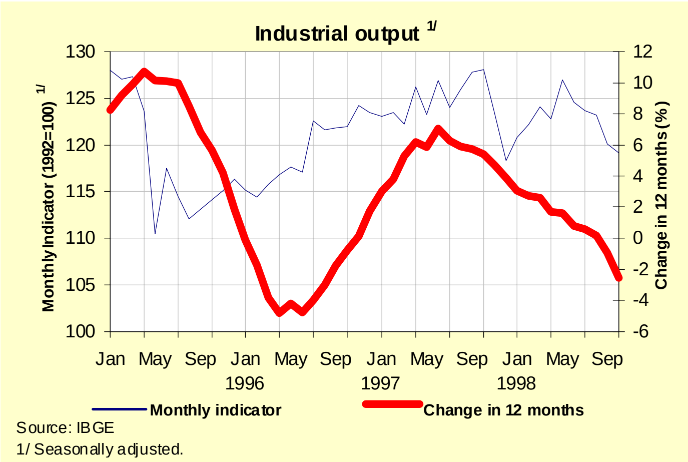
Monetary program for the first quarter and the year of 1999

A. The economy in the fourth quarter of 1998

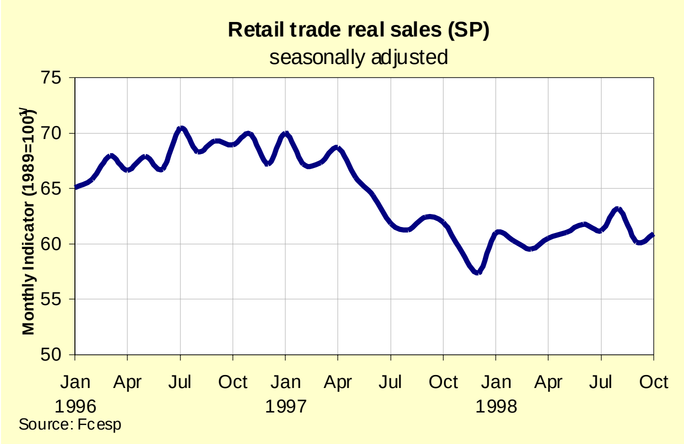
1. The situation of tight international liquidity for emerging economies worsened in August 1998 when Russia announced its debt moratorium. This scenario generated negative impacts on the Brazilian economy in the third quarter of 1998. Thus, an analysis of the seasonally adjusted series released by IBGE points to a Gross Domestic Product – GDP decline of 1.52% in the quarter, in relation to the previous quarter. This result reflects declines under crop and livestock farming (7.72%), industry (5.43%) and services (0.39%). The rate of GDP growth in 12 months, which had reached a level of 1.74% in June, closed September at 0.98% and included growth of 1.2% in the crop and livestock sector, 0.62% in industry and 0.98% in the sector of services.



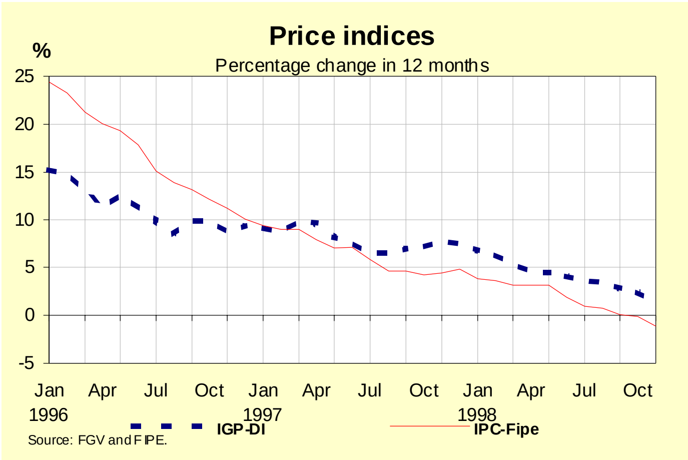
2. According to IBGE data from which Banco Central has purged seasonal factors, industrial production dropped by 1.74% in the third quarter in relation to the previous quarter. This figure was a consequence of negative growth of 4.54% under capital goods and 3.88% under consumer goods. Production of intermediate goods remained stable in the quarter. The segment of durable consumer goods declined by 7.64% and was a consequence of the results generated by the automotive industry. In the month of October, industrial production registered a decline of 0.81% in relation to the previous month. This clearly signaled the drop in the activity level that is expected to occur in coming months.



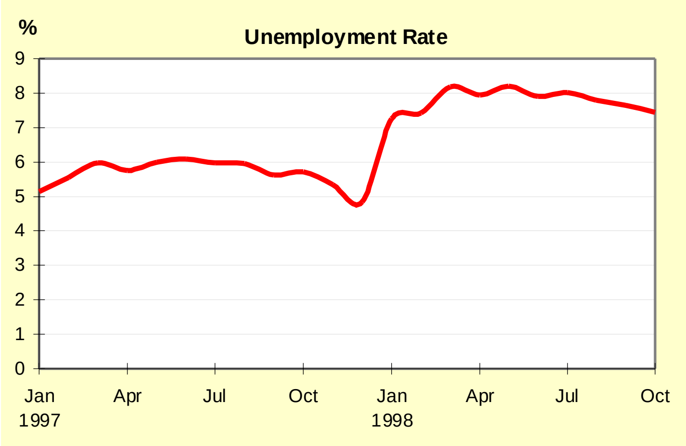
3. The indicator of real billings of the retail trade sector of the metropolitan region of São Paulo, as released by Fcesp and purged of seasonal factors by Banco Central, registered growth of 0.74% in the third quarter of 1998 in relation to the preceding quarter. During the course of the year, the results of this index have been consistently below the previous year's level. In accumulated terms for the year up to October, in relation to the same period of the previous year, real billings of the retail trade sector dropped by 6.39% and closed the last 12 months at –7.85%. In the same period, according to the Brazilian Association of Wholesalers and Distributors of Industrialized Products – ABAD, real billings of the wholesale sector expanded by 5.8%. In contrast to this result, figures released by the Brazilian Association of Supermarkets – ABRAS indicate a rise of 3.76% in the real sales of the supermarket sector. This is a reflection of the process of technological modernization adopted by supermarkets and consequent productivity gains.



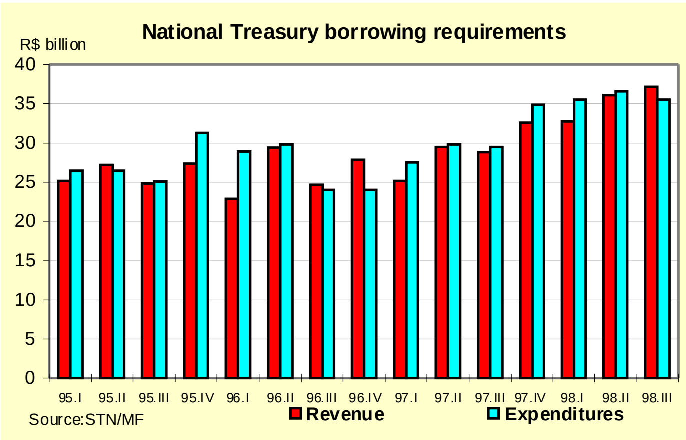
4. In 1998, growth in price indices continued downward. In the month of November, the General Price Index – Internal Supply (IGP-DI) closed with negative growth and accumulated expansion of 1.41% in the 12 month period. The Consumer Price Index - FIPE registered negative growth of -0.44% in the month of November, and accumulated a -1.1% change in the last 12 months, as against 4.41% in the same period of 1997. Insofar as the prices of tradables and non-tradables are concerned, the Consumer Price Index – FIPE turned in growth of –2.25% and –0.78%, respectively, in the 12 month period ended in November, as compared to –0.19% and 6.08%, in this order, in the same period of the previous year. This result reflects a situation of increased convergence of the price indices of tradables and non-tradables which, associated with the gradual process of exchange devaluations, has contributed importantly to improving the foreign market competitiveness of Brazilian products.



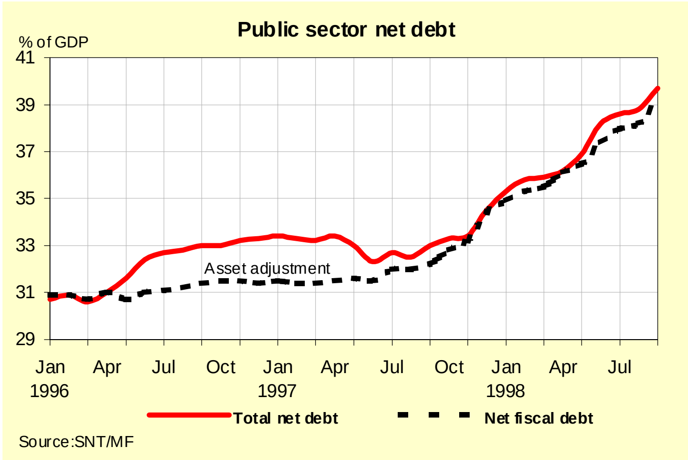
5. The process of restructuring productive activities, particularly in the industrial sector, impacted labor markets during all of 1998. However, in October, basic unemployment, as measured by IBGE, dropped from 7.65% in the previous month to 7.45%. The reduction in unemployment during the month (-2.61) reflected a drop of 0.4% in the economically active population, as against a reduction of 0.2% in the number of people employed.



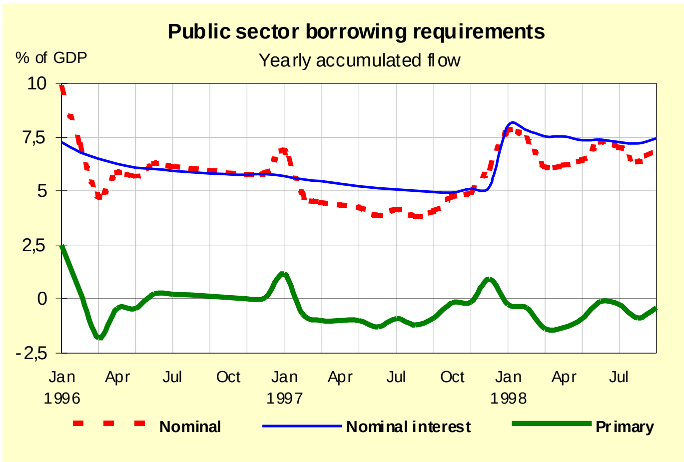
6. In September, National Treasury budget operations registered a deficit of R$ 1.7 billion, based on revenues of R$ 10.2 billion and expenditures of R$ 11.9 billion. In the first nine months of 1998, the deficit totaled R$ 1.5 billion, based on revenues of R$ 105.9 billion and expenditures of R$ 107.4 billion. In comparison to the same period of 1997, revenues turned in real growth of 20.9%, reflecting changes in legislation governing the income tax and import operations approved toward the end of 1997. Aside from this, one must emphasize that the atypical inflow level also resulted from payments effected under the terms of telecommunications service concessions.



7. In September, the Net Public Sector Debt (DLSP) totaled R$ 358.9 billion (39.7% of GDP). Internal indebtedness came to 34.4% of GDP, of which 19.3% referred to the central government, 11.7% to state governments, 1.8% to municipal governments and 1.6% to state companies. The net foreign debt closed at 5.3% of GDP.

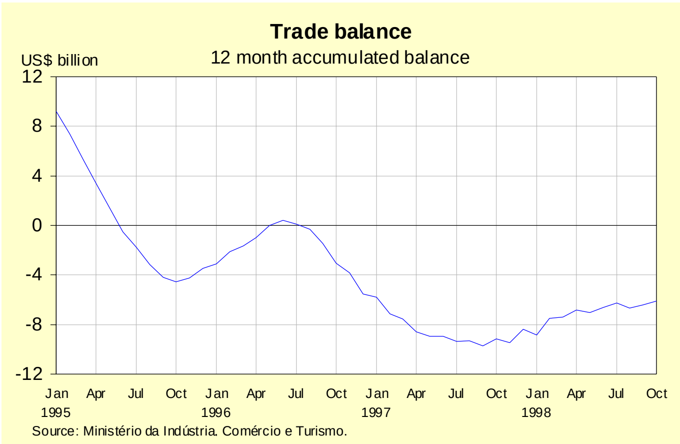


8. Public Sector Borrowing Requirements (NFSP) registered an accumulated nominal deficit of 7.04% of GDP up to September. Once nominal interest is deducted (7.44% of GDP), the primary result was a surplus of 0.4% of GDP, as the central government closed with a surplus of 0.71% of GDP and regional governments ended the period with a deficit of 0.31% of GDP.



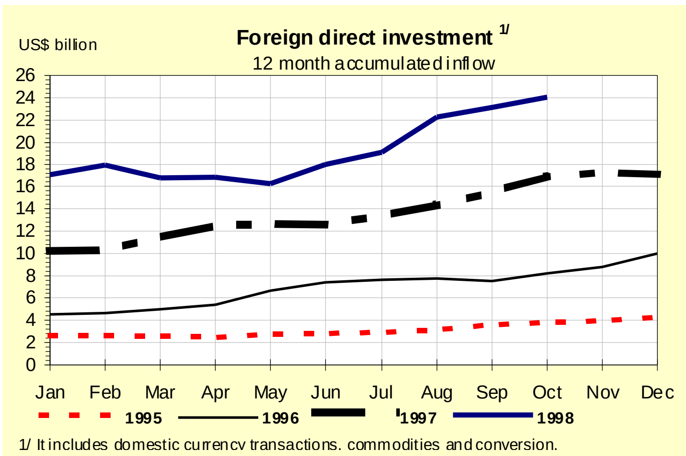
9. In September, the Fiscal Management and Control Commission (CCF) was created and given the tasks of monitoring and evaluating the fiscal situation and proposing measures capable of ensuring the feasibility of the fiscal targets defined for each year. At the same time, measures were sent to the Congress for the purpose of adapting the level of internal savings to international liquidity restrictions and, in this way, attaining the objectives of primary surpluses of 2.6% of GDP in 1999, 2.8% of GDP in 2000 and 3% of GDP in 2001.

10. The current account balance of payments result was a US$ 27.4 billion deficit in the January to October 1998 period, as compared to US$ 26.4 billion in the same period of the previous year. The trade deficit dropped from US$ 6.5 billion to US$ 4.3 billion as a result of a decline in import operations from US$ 51 billion to US$ 48.3 billion, while export operations also dropped, closing at US$ 44 billion, as compared to US$ 44.5 billion in the same period of the previous year.

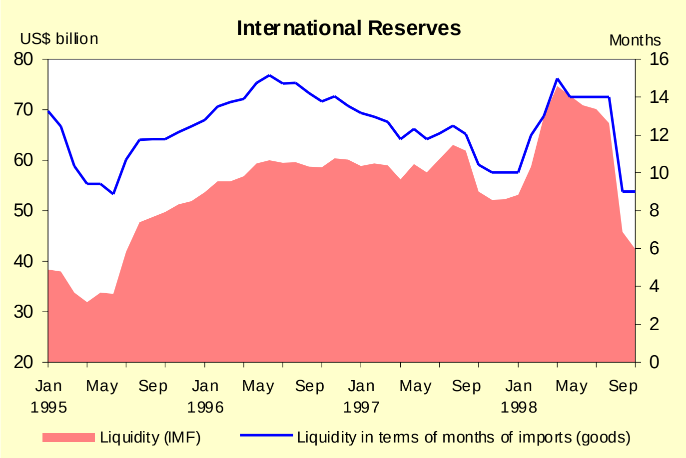


11. The accumulated negative balance of the service account in the January to October period increased from US$ 21.7 billion in 1997 to US$ 24.8 billion in 1998. This increase occurred under all headings of this account. In more specific terms, net remittances of profits and dividends increased from US$ 4.2 billion to US$ 5.7 billion, while net interest payments increased from US$ 8 billion to US$ 9.5 billion.

12. In the first ten months of the year, accumulated inflows of direct foreign investments totaled US$ 22.9 billion, for growth of 48.7% in relation to the same period of the previous year. Of the overall volume of inflows, 26.7% (US$ 6.1 billion) originated in privatization-related operations. Inflows of direct foreign investments not related to privatizations came to US$ 8.3 billion at the peak of the international financial crisis between August and October 1998. This was a clear sign of continued investor confidence in the Brazilian economy over the long-term.



13. In October, international reserves came to US$ 41.6 billion in the cash concept and US$ 42.4 billion in the international liquidity concept. In both cases, these figures represent a drop of US$ 3.4 billion in relation to the previous month. Of that total, US$ 2.2 billion involved net Banco Central injections of funding into the domestic exchange market and US$ 1.2 billion resulted from net outflows through monetary authority foreign operations, related to bond and Paris Club payments.



B. Monetary policy in the third quarter of 1998

14. In September, the restricted monetary base totaled R$ 34.6 billion, according to the concept of average daily balances. Just as in the case of the other monetary aggregates, this result was well within the parameters defined in monetary programming for the third quarter. The monetary base registered positive growth of 2% in the month and 32.3% in 12 months. Currency issued and banking reserves turned in growth of 2.7% and 1.1% in September and 18.1% and 54.6% in 12 months.

15. The expanded monetary base, which corresponds to the restricted base plus compulsory cash deposits and federal public securities outside Banco Central, came to R$ 322.2 billion in September. The month closed with negative growth of 5.7% while the 12 month period ended with accumulated positive growth of 43.9% up to September.

Table 1. Observed results and forecast monetary program for the third quarter of 1998 [1/]

Itemization	Forecast		Observed	
	R$ billion	Percentage change in 12 months [2/]	R$ billion	Percentage change in 12 months
M1 [3/]	39,4 - 46,3	10,4	43,4	12,0
Restricted base [3/]	31,0 - 36,4	28,9	34,6	32,3
Expanded base [4/]	346,6 - 406,9	68,2	322,2	43,9
M4 [4/]	415,8 - 488,1	20,9	423,5	13,3

1/ It refers to the final month of the period.

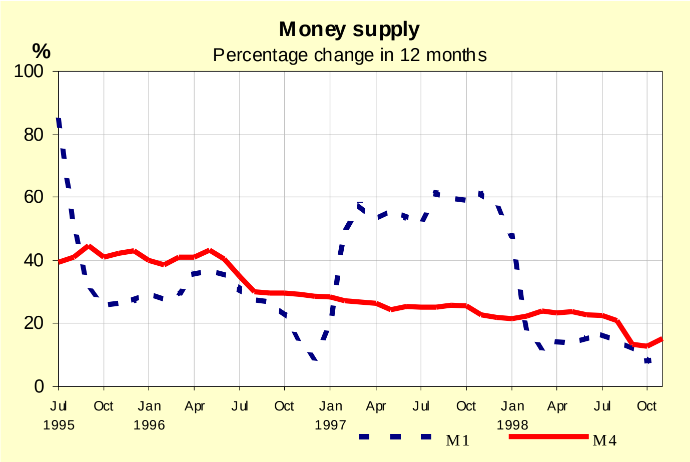
2/ Percentage changes are based on the medium point of forecast.

3/ Working-day balance average of last month in the period.

4/ End-of-period balances.

16. In September, the money supply (M1) totaled R$ 43.4 billion, according to the concept of average daily balances. The monetary aggregate turned in growth of 0.1% in the month and accumulated expansion of 12% in 12 months. Currency held by the public and demand deposits reached respective levels of R$ 16.4 billion and R$ 27 billion. Currency held by the public expanded by 2.7% in the month, while demand deposits dropped by 1.3%. In accumulated 12 month terms up to September, these aggregates expanded by 17.4% and 9%, respectively.

17. The broader monetary aggregate (M4) totaled R$ 423.5 billion at the end of September. In the month, M4 dropped by 3.6%, as against growth of 13.3% in 12 month accumulated terms.



18. In the first two months of the quarter, the Banco Central Monetary Policy Committee (Copom) maintained the downward movement of interest rates. Consequently, in July, the Banco Central Base Rate (TBC) and the Banco Central Assistance Rate (TBAN) came to respective averages of 20.89% per year and 27.8% per year, respectively, and, in August 19.75% per year and 25.75% per year, in the same order. The Selic reference rate closed at 20.33% per year in July and 19.23% per year in August.

19. In the month of September, monetary policy implementation was based on consistent utilization of classic policy instruments and, in view of intensified outflows of foreign resources, was aimed at minimizing the effects of the deterioration of the international scenario on the Brazilian economy. In this sense, Banco Central suspended discount window operations referenced to the TBC, raised the TBAN to 29.75% and redefined the rules on compulsory reserves on time deposits.

20. Since that time, adjustment of very short-term interest rates came to be effected through open market operations which, offsetting the liquidity squeeze caused by international reserve losses, generated an expansionary monetary impact in the month of September. With intensification of international uncertainties, Copom raised the TBAN to 49.75% per year and, at the same time, Banco Central continued monitoring the Selic reference rate, which came to 34.29% per year in September.

C. Monetary policy in October-November 1998

21. In November, the restricted monetary base came to R$ 33.4 billion in the concept of average daily balances. This figure represented a reduction of 4% in the month and positive growth of 28.5% accumulated over 12 months. Currency issued and banking reserves totaled R$ 19.4 billion and R$ 14 billion, respectively, with reductions of 0.2% and 8.8% in the month and growth of 18.8% and 45.1% over twelve months, in the same order.

22. In the month of November, the expanded monetary base came to R$ 352.9 billion. Growth in the month closed at 7% and was mostly a consequence of R$ 5.9 billion in NTN-H issue aimed at guarantying the National Treasury's contractual debt with Petrobrás, coupled with Banco Central issue of R$ 9.8 billion in LBC. The latter operation was part of the debt renegotiation with the state of Rio Grande do Sul. In 12 month accumulated terms, the expanded monetary base registered growth of 60.5%.

Table 2. Observed results and forecast monetary program for the fourth quarter of 1998 1/

Itemization	Forecast		Observed	
	R$ billion	Percentage change in 12 months 2/	R$ billion	Percentage change in 12 months
M1 3/	45,0 – 52,8	7,2	42,7	8,8
Restricted base 3/	34,6 - 40,7	16,6	33,4	28,5
Expanded base 4/	347,7 - 408,2	35	352,9	60,5
M4 4/	435,1 – 510,7	20,4	443,2	15,8

1/ It refers to the final month of the period.

2/ Percentage changes are based on the medium point of forecast.

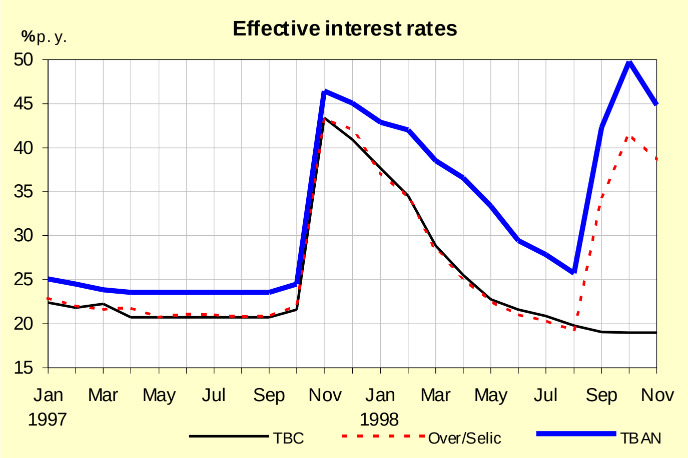
3/ Working-day balance average of last month in the period.

4/ End-of-period balances.

23. In the month of November, the money supply (M1) totaled R$ 42.7 billion, based on the concept of average daily balances. This result reflected negative growth of 0.8% in the month and expansion of 8.8% in 12 months. Currency held by the public and demand deposits came to respective levels of R$ 16.9 billion and R$ 25.7 billion in November, for declines of 0.6% and 0.9% in the same order. An analysis of the 12 month accumulated figures up to November shows that these aggregates expanded at respective levels of 18.3% and 3.4%.

24. The balance of the broader monetary aggregate (M4) totaled R$ 443.2 billion at the end of November, for growth of 3.5% in the month and 15.8% in the last 12 months.

25. In the month of November, Copom announced a reduction in the TBAN from 49.75% to 42.25% per year. Parallel to this measure, it maintained the suspension of the TBC as a reference for discount window operations. Monitoring of the Selic reference rate through open market operations made it possible to reduce the level of that rate from 41.58% per year in October to 38.73% per year in November. On the final day of November, the rate closed at 34.4%.



D. Outlook for the first quarter and all of 1999

26. The agreement signed between Brazil and international financial institutions was approved by the National Congress on December 10, 1998. This agreement will make US$ 41 billion available to the country and consists of a non-conventional contract with the participation of the International Monetary Fund – IMF and other international organizations and the governments of several foreign countries. The purpose of the agreement is to provide the country with a sort of liquidity cushion that will make it possible to implement important structural reform measures capable of achieving the effective adjustment of the Brazilian economy. However, the importance of this agreement should not be measured simply in terms of the volume of funding available, but rather as a clear expression of confidence in the Brazilian economy on the part of the international financial community as a whole.

27. In this framework, the performance of the Brazilian economy in 1999 will reflect recently adopted economic policy measures. The measures in question were taken to adapt the economy to the restrictions imposed by the worsening international scenario. Consequently, the impact of such short-term measures as the interest rate rise that occurred in the wake of the international financial crisis, and of measures of a structural nature, including implementation of the Fiscal Stability Program, will determine the paths to be followed by the economy in 1999.

28. The GDP trajectory in 1999 will be determined by the drop in domestic demand expected to follow restrictive measures adopted in the monetary and fiscal areas. However, the effectiveness of the Fiscal Stability Program during the year should make it possible to begin gradually cutting interest rates and recovering the economic activity, as of the third quarter. The year's expected performance should not be seen as a step backward in the process of intense economic development that followed in the wake of the Real Plan, but rather as a temporary slowdown that will make it possible to consolidate the nation's internal savings at a level compatible with the need to guaranty the sustainability of the process.

29. As a matter of fact, in the previous situation, strong inflows of foreign resources were being utilized to gradually adjust public accounts, as internal savings were supplemented by foreign capital. However, the international liquidity squeeze now demands that the country redesign its strategy for adjusting public sector accounts.

30. In terms of price growth, inflation is expected to remain low in 1999. However, aside from the low level of price growth, one should note such other important factors as lower internal demand and a sharp falloff in interest rates. In terms of policy implementation, the government will continue following a course of gradual exchange devaluations and this policy, in an environment of productivity leveraged to some extent by the ongoing structural reforms in the nation's economy, will have a decidedly positive impact on the balance of trade.

31. With the productivity gains and cost reductions that are being obtained, the balance of trade profile is expected to change significantly in comparison to the negative results that have marked recent years. Insofar as the current account balance is concerned, expectations are that the deficit will decline from about 4.2% of GDP in 1998 to 3.5% of GDP in 1999, thus making a highly favorable contribution to the position of the nation's external borrowing requirements in the coming year. Foreign capital inflows in the last two months suggest some degree of improvement in the foreign liquidity crisis, signaling the possibility of a return to normal foreign financing flows in the year to come.

E. Indicative targets for growth in monetary aggregates in the first quarter and all of 1999

32. Programming of the monetary aggregates in the first quarter of 1999 was based on expected results with respect to inflation, GDP, interest rates, monetary impacts generated by National Treasury operations and state debt restructuring, Banco Central interventions in the financial market, open market and exchange market and discount window operations.

Table 3. Monetary program for 1999 [1/]

Itemization	First quarter		Year	
	R$ bilhon	% change 12 months [2/]	R$ bilhon	% change 12 months
M1 [3/]	46,0 - 54,0	20,5	52,1 - 61,2	14,8
Restricted base [3/]	35,4 - 41,6	24,8	41,2 - 48,4	18,9
Expanded base [4/]	353,0 - 414,4	23,5	387,4 - 454,7	17,1
M4 [4/]	436,7 - 512,6	13,8	490,6 - 576,0	18,5

1/ It refers to the final month in the period.

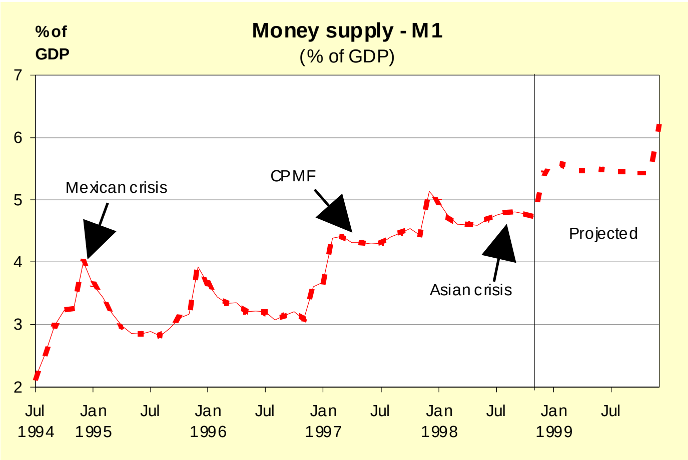
2/ Percentage changes are based on the medium point of forecast.

3/ Working-day balance average in month.

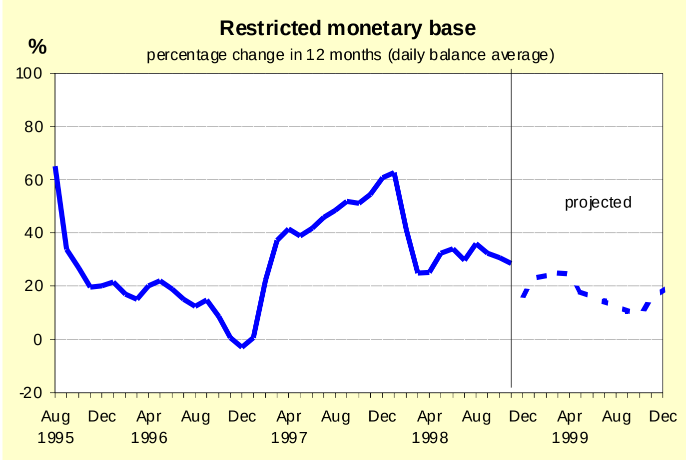
4/ End-of-period balances.

33. Money supply (M1) projections (currency held by the public plus demand deposits) were generated on the basis of Banco Central forecasts of internal interest rates and growth in nominal income in the coming months, as well as expectations as regards the migration of resources out of short-term FIF as a result of levying of a higher CPMF rate in early 1999, together with other factors expected to impact that aggregate. Twelve month growth in the average daily balances of the money supply was forecast at 20.5% in March 1999.

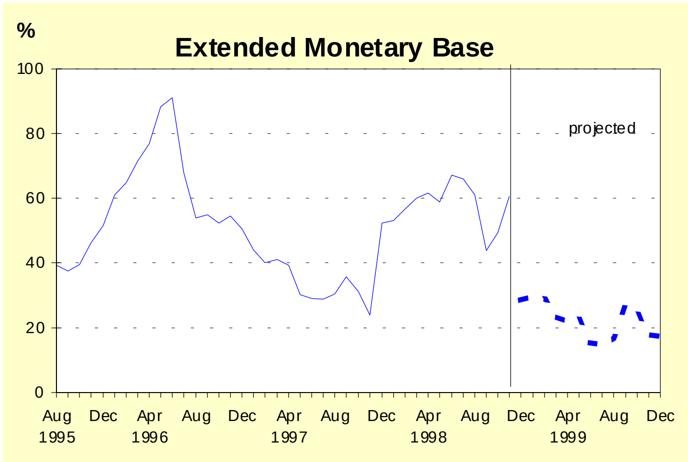
34. The upward movement in the M1/GDP ratio since the start of the Real Plan can be attributed to monetization of financial assets as a consequence of stabilization and, starting in 1997, to the new money supply level and an intensified process of monetization consequent upon taxation of financial transactions. In the coming months, it is expected that the M1/GDP ratio will be quite similar to that following introduction of the CPMF, reflecting the increased time period required for very short-term operations to achieve positive net earnings.



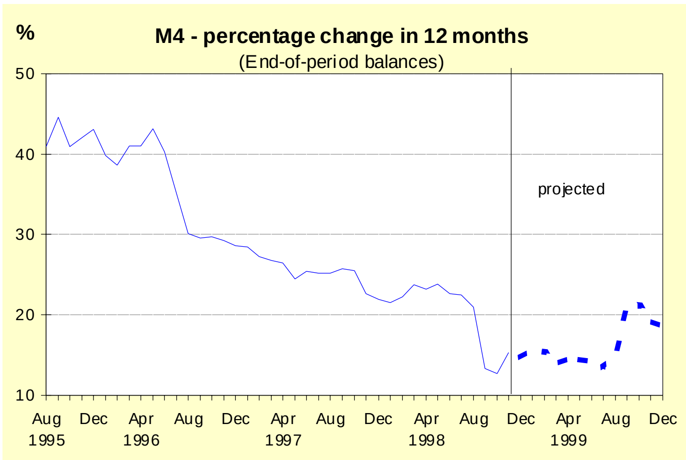
35. Based on the expected behavior of currency demand as well as the scenario projected for compulsory deposits on demand resources, one can predict that the 12 month growth figure for the average monetary base balance (currency issued plus banking reserves) will come to 24.8% in March 1999.



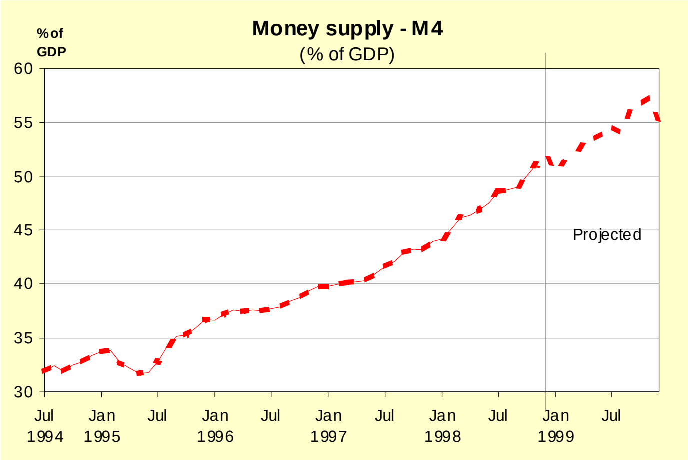
36. Projection of the expanded base (a measurement of the monetary debt and federal securities debt), which presupposes neutralization of the factors conditioning the undesired impact on the restricted monetary base, pointed to the following as the major expansionary factors in coming months: interest on the federal securities debt and conclusion of state debt restructuring operations. Thus, one can project 12 month growth of 23.5% for this monetary aggregate in March 1999.



37. In the same manner, and consistent with the performance standard of the other aggregates, 12 month accumulated expansion of M4 is estimated at 13.8% up to March 1999.



38. In coming months, the M4/GDP ratio is expected to continue upward, albeit at a less intense pace, reflecting expected interest rate behavior in the period.



39. Growth in the monetary aggregates is summarized in the following table, which presents the values for 1997 and in the October/November period of 1998, as well as forecasts for the first quarter of 1999.

Table 4. Evolution of monetary aggregates [1/]

Itemization	1997		1998		1999 [2/]			
	Year		October - November		First quarter		Year	
	R$ billion	% change in 12 months	R$ billion	% change in 12 months	R$ billion [3/]	% change in 12 months	R$ billion [3/]	% change in 12 months
M1 [4/]	45,6	57,3	42,7	8,8	50,0	20,5	56,7	14,8
Restricted base [4/]	32,3	60,6	33,4	28,5	38,5	24,8	44,8	18,9
Expanded base [5/]	280,1	52,2	352,9	60,5	383,7	23,5	421,0	17,1
M4 [5/]	392,4	21,8	443,2	15,8	474,6	13,8	533,3	18,5

1/ It refers to the final month in the period.

2/ Projected.

3/ Medium point of forecasts.

4/ Working-day balance average in month.

5/ End-of-period balances.

40. Growth in the different multipliers implicit in monetary programming is summarized in the table that follows:

Table 5. Monetary multiplier [1/]

Itemization	1997		1998		1999 [2/]			
	Year		October - November		First quarter		Year	
	Multiplier	% change in 12 months	Multiplier	% change in 12 months	Multiplier	% change in 12 months	Multiplier	% change in 12 months
M1 / Restricted base [3/]	1,413	-2,0	1,276	-15,3	1,297	-3,5	1,266	-3,4
Banking reserves / Demand deposits [3/]	0,439	89,2	0,544	40,2	0,573	11,0	0,586	11,4
Currency / M1 [3/]	0,385	-23,8	0,397	8,8	0,359	-1,4	0,378	-11,7
M4 / Expanded base [4/]	1,401	-19,9	1,250	-28,2	1,237	-7,8	1,267	1,3

1/ It refers to the final month in the period.
2/ Projected.
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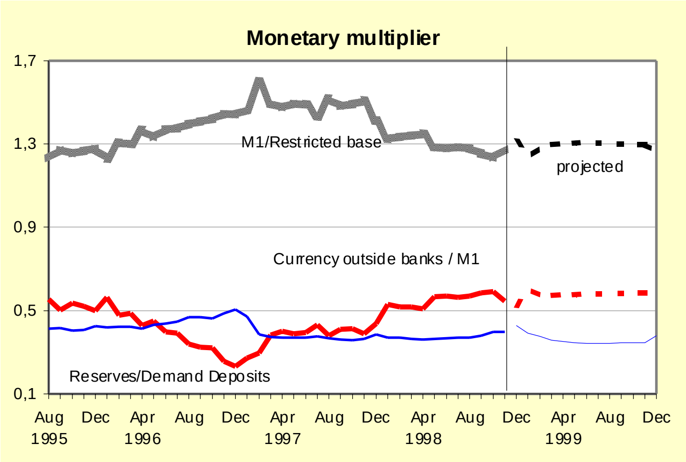
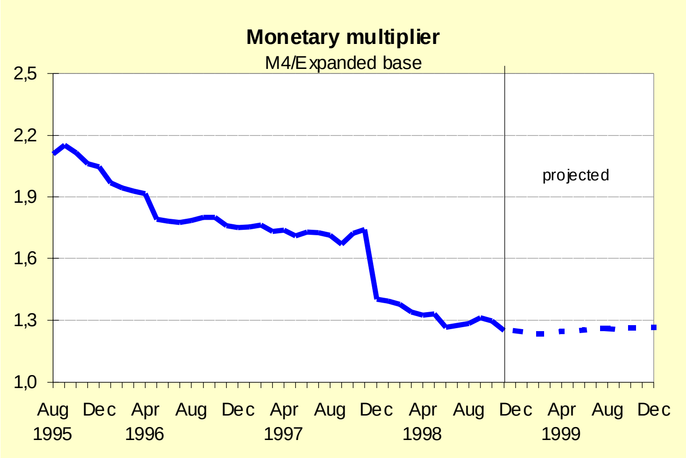
4/ End-of-period balances.

41. As a result of the adaptation of economic agents to the environment of price stability, the future values of the restricted monetary base multiplier are not expected to be marked by significant volatility.



42. The expanded base multiplier is expected to remain relatively stable in coming months, since operations consequent upon the restructuring of state debts are now being concluded. It was precisely these operations that had been exerting a greater impact on the expanded base than on M4.



Summary of projections

Table 1. Observed results and forecast monetary program for the third quarter of 1998 1/

Itemization	Forecast		Observed	
	R$ billion	Percentage change in 12 months 2/	R$ billion	Percentage change in 12 months
M1 3/	39,4 - 46,3	10,4	43,4	12,0
Restricted base 3/	31,0 - 36,4	28,9	34,6	32,3
Expanded base 4/	346,6 - 406,9	68,2	322,2	43,9
M4 4/	415,8 - 488,1	20,9	423,5	13,3

1/ It refers to the final month of the period.

2/ Percentage changes are based on the medium point of forecast.

3/ Working-day balance average of last month in the period.

4/ End-of-period balances.

Table 2. Observed results and forecast monetary program for the fourth quarter of 1998 1/

Itemization	Forecast		Observed	
	R$ billion	Percentage change in 12 months 2/	R$ billion	Percentage change in 12 months
M1 3/	45,0 – 52,8	7,2	42,7	8,8
Restricted base 3/	34,6 - 40,7	16,6	33,4	28,5
Expanded base 4/	347,7 - 408,2	35	352,9	60,5
M4 4/	435,1 – 510,7	20,4	443,2	15,8

1/ It refers to the final month of the period.

2/ Percentage changes are based on the medium point of forecast.

3/ Working-day balance average of last month in the period.

4/ End-of-period balances.

Table 3. Monetary program for 1999 [1/]

Itemization	First quarter		Year	
	R$ bilhon	% change 12 months [2/]	R$ bilhon	% change 12 months
M1 [3/]	46,0 - 54,0	20,5	52,1 - 61,2	14,8
Restricted base [3/]	35,4 - 41,6	24,8	41,2 - 48,4	18,9
Expanded base [4/]	353,0 - 414,4	23,5	387,4 - 454,7	17,1
M4 [4/]	436,7 - 512,6	13,8	490,6 - 576,0	18,5

1/ It refers to the final month in the period.

2/ Percentage changes are based on the medium point of forecast.

3/ Working-day balance average in month.

4/ End-of-period balances.

Table 4. Evolution of monetary aggregates [1/]

Itemization	1997		1998		1999 [2/]			
	Year		October - November		First quarter		Year	
	R$ billion	% change in 12 months	R$ billion	% change in 12 months	R$ billion [3/]	% change in 12 months	R$ billion [3/]	% change in 12 months
M1 [4/]	45,6	57,3	42,7	8,8	50,0	20,5	56,7	14,8
Restricted base [4/]	32,3	60,6	33,4	28,5	38,5	24,8	44,8	18,9
Expanded base [5/]	280,1	52,2	352,9	60,5	383,7	23,5	421,0	17,1
M4 [5/]	392,4	21,8	443,2	15,8	474,6	13,8	533,3	18,5

1/ It refers to the final month in the period.

2/ Projected.

3/ Medium point of forecasts.

4/ Working-day balance average in month.

5/ End-of-period balances.

Table 5. Monetary multiplier [1/]

Itemization	1997		1998		1999 [2/]			
	Year		October - November		First quarter		Year	
	Multiplier	% change in 12 months	Multiplier	% change in 12 months	Multiplier	% change in 12 months	Multiplier	% change in 12 months
M1 / Restricted base [3/]	1,413	-2,0	1,276	-15,3	1,297	-3,5	1,266	-3,4
Banking reserves / Demand deposits [3/]	0,439	89,2	0,544	40,2	0,573	11,0	0,586	11,4
Currency / M1 [3/]	0,385	-23,8	0,397	8,8	0,359	-1,4	0,378	-11,7
M4 / Expanded base [4/]	1,401	-19,9	1,250	-28,2	1,237	-7,8	1,267	1,3

1/ It refers to the final month in the period.

2/ Projected.

3/ Working-day balance average in month.

4/ End-of-period balances.