V

Economic-Financial Relations with the International Community

Foreign Trade Policy

In 2006, foreign trade policy followed the same general lines defined and implemented since 2003. In this context, one should stress implementation of new measures related to Industrial, Technological and Foreign Trade Policy (PITCE), with the objective of consolidating a new institutional environment for the nation's industrial policy. At the same time, government measures focused on stimulating exports were maintained and were oriented by the Export and Investment Promotion Agency (Apex-Brazil). These efforts have produced positive results in terms of expansion and diversification of both export products and markets of destination. As regards measures taken to simplify and streamline foreign trade operational procedures, the most significant change was the more flexible approach taken to the rules on exchange coverage in contrast to the ineffective bureaucratic procedures used in the past in efforts to control the financial costs of transactions. It is important to mention that the Federal Revenue Secretariat has taken on responsibility for ensuring compliance with the new rules.

Very little progress was achieved in 2006 external negotiations. In July, the World Trade Organization (WTO) announced suspension of the Doha Round, which had been projected to liberalize international trade. The major stumbling point in this process was the United States' demand that it should have greater access to the European agricultural market in order to offset elimination of its farm subsidy program. In September, at the close of the Rio de Janeiro meeting involving ministers from the G-20 countries and other groups representing developing countries with their counterparts from the USA, European Union (EU) and Japan, the WTO Director General set March 2007 as the maximum limit for reinitiating Doha Round negotiations. This period took due account of the need for adjusting to internal United States policy following congressional elections in November, the end of fast-track negotiating authority in the USA in 2007 and announcement of that country's Agricultural Law, with the 2007 subsidy package. Just as in previous years, the negotiating processes involving the Southern Common Market (Mercosul), Free Trade Area of the Americas (FTAA) and Mercosul-European Union ground to a practical standstill, awaiting the evolution of multilateral WTO negotiations. Mention should be made of renewal of the United States Generalized System of Preferences (GSP) through 12.31.2008. This was a positive development for Brazil, since the country utilizes the GSP for approximately 15% of exports targeted to the USA. In December, the European Union showed interest in recommencing and accelerating negotiations of a free trade agreement with Mercosul in 2007.

In the second half of 2006, Brazil took on the pro-temp presidency of Mercosul, a particularly delicate moment in the integration process. It was a moment marked by questioning of the customs union and divergent positions among member and associate countries, including the dispute between Argentina and Uruguay concerning installation of a paper and pulp factory in the latter country; nationalization of Petrobras refineries in Bolivia and higher prices for the natural gas imported from that country by Brazil; coupled with discontent in Paraguay and Uruguay in the face of the economic results achieved as a consequence of the integration process, giving rise to pursuit of bilateral trade arrangements with the USA.

Creation of the Competitive Adaptation Mechanism for the purpose of regulating trade relations between Brazil and Argentina in February 2006 was an important step in harmonizing bilateral relations between the two Mercosul partners at that moment. By the time the final meeting of the Brazil-Argentine Trade Monitoring Commission drew to a close, there were evident signs of understanding between the two countries, as they put most of their trade differences behind them, including questions in the segments of textiles and footwear. In the latter case, the voluntary restriction agreement, which limited Brazilian exports to 13 million pairs of footwear per year, was not renewed. In much the same way, the voluntary restriction agreement formalized with Argentina in 2004 involving the home appliance line (refrigerators, ovens and washing machines) was not renewed, as evidence mounted that its objective of stimulating growth of the Argentine industrial structure was not being attained, since Brazilian products were being substituted by merchandise originating in other countries.

When the system of free automotive trade was not implemented on January 1, 2006, Brazil and Argentina extended the then existent bilateral agreement for an additional 60 days as of that date. A provisional agreement, extending from March 2 to June 30 was implemented by Decree 5,716, dated 3.9.2006, regulating the automotive trade between the two countries until such time as a definitive agreement could be reached by the Automotive Sector Work Group. The new Brazil-Argentina Automotive Agreement, instituted by Decree 5,835, dated 7.6.2006, will remain in effect for 24 months starting on July 1, 2006. This agreement does not set a date for the start of free trade. While in effect, a 1.95 deviation coefficient will be applied to exports, with the possibility of rising as high as 2.1. This means that, for every US$100 exported, imports of up to US$1.95 will be allowed without charging of the Import Tax. Consequently, if Argentina exports US$1 billion to Brazil, it will be able to import up to US$1.95 billion from Brazil, free of the import tax. At the same time, a Brazil-Mexico free trade agreement involving automobiles and light vehicles was announced on 11.30.2006, scheduled to take effect as of January 1, 2007. In 2006, the two countries maintained their trade exchange quotas of 210,000 light vehicles, with an import tax rate of zero. With the new agreement, the rate will remain at zero, but no longer will annual vehicle quotas exist. Free trade in heavy vehicles, such as buses and trucks, was postponed from July 2011 to July 2020. It was also agreed that Mercosul partners should negotiate a gradual process of liberalization in this segment with Mexico by December 2009, in order to take effect one year after its approval, resulting in free trade in heavy vehicles between Mercosul and Mexico in 2020.

Another landmark in the process of Mercosul regional integration was inclusion of Venezuela as a full member of the bloc on 7.4.2006. The time periods stipulated for implementation of free trade indicate that Venezuelan products will be able to freely enter the Brazilian market in January 2010 and Brazilian products will have access to the Venezuelan market as of January 2012. In comparison to the time period set out in the Mercosul-Andean Community Agreement, which has been in effect since February 2005, these dates represent a positive gain for Brazil. Products considered sensitive by their respective countries will be entitled to a longer period of adjustment, through January 2014. According to the bloc’s tradition, Venezuela will have a period of four years in which to adopt the Common External Tariff (TEC).

The Mercosul Structural Convergence and Institutional Strengthening Fund (Focem), an initiative begun by Paraguay when it occupied the pro-temp presidency in 2005 with the aim of financing programs that would foster integration among the different countries and reduce structural and institutional asymmetries, was approved by the Mercosul Common Market Council (CMC) Decision 18/2005, promulgated by Decree 5,969, dated 11.23.2006. Focem will be maintained by annual contributions made by the Mercosul member countries, totaling US$100 million, for which Brazil will be responsible for 70%, Argentina for 27%, Uruguay for 2% and Paraguay for 1%. The Structural Convergence Program, scheduled for the first four years of Focem operation, will prioritize Paraguay, with 48% of the Fund’s total resources.

With regard to the TEC, CMC Decision 37/2005, which deals with free intra-bloc circulation of products that have zero TEC rates or 100% of the preference margin for third countries, was regulated by Decree 5,738, dated 3.30.2006. The products included are now treated as originating in Mercosul countries. This decision represented the first stage of the Common Tariff Policy. An ad hoc Group was created with the task of creating the Mercosul Customs Code Project in the first half of 2007. The objective of this project is to make it feasible to implement the second stage of Tariff Policy, which will encompass elimination of dual charging of the TEC and distribution of customs income. New advances in customs union instruments will require discussion of the Mercosul Customs Code and of the Special Import Systems.

The use of special taxation systems in order to levy import taxes different from those set down in the TEC has been one of the major obstacles to implementation of the customs union. Ex-tariff items are just one example of the special Brazilian import system, since they allow for a reduction in the ad valorem rate of the import tax on capital goods, and computer and telecommunications products to a level of 2% when similar nationally produced products do not exist, but production does exist in another Mercosul member country, and to a level of zero when production does not exist in any Mercosul country. The objective is to stimulate investments targeted at expanding and restructuring the national production structure for goods and services. In 2006, the Foreign Trade Chamber (Camex) issued 22 resolutions dealing with this system. According to Camex Resolution 35, dated 11.22.2006, the policy on granting ex-tariff status was altered. Aside from consolidating current information, several adjustments were made in the process of obtaining new ex-tariff classifications, with the aim of accelerating the process. Simplifications were introduced into renewal procedures, which will no longer require a new SRF examination, provided that the originally approved text is maintained. Camex Resolution 43, dated 12.22.2006, published the entire TEC, with adaptations in the Common Mercosul Nomenclature (NCM) to the changes introduced by the IV Amendment to the Harmonized System, including with respect to the lists of exceptions. Parallel to this, Camex Resolution 42, dated 12.19.2006, expanded the Export Tax (IE) from 7% to 9%, effective as of January 1, 2007, levied on external sales of wet blue, while revoking Camex Resolution 42, dated 12.6.2005.

Several of the forecast measures were implemented following the November 2003 announcement of the PITCE, including the Innovation Law, which introduced all of the incentive mechanisms to technological innovation and research; regulation of Biosecurity Law; measures to reduce taxation on productive investments, in order to stimulate the software sector and digital inclusion as approved by Law 11,196; adoption of a new integrated management model for sectoral funds; definitive regulation of the National Scientific and Technological Development Fund; BNDES financing lines, including the National Industrial Structure Modernization Program (Modermaq), concluded in September 2006, and the

Finame National Industrial and Health Services Modernization Program (Finame-Modermaq); institution of the Special Taxation System for the Information Technology Services Export Platform (Repes); creation of the Special System of Capital Goods Acquisitions for Exporting Companies (Recap); the Tax System for Incentives to Port Structure Modernization and Expansion (Reporto); and institutionalization of the National Program of Technological Support to Exports (Progex).

Just as in previous years, measures were adopted with the aim of simplifying foreign trade operations, thus generating cost savings for businesses. Following the measures adopted in the area of exchange, as described in the next item of this chapter, the rules governing qualification of companies that desire to operate in the foreign trade segment were simplified by SRF Normative Instruction 650, dated 5.12.2006, with the objective of achieving greater speed in the processing of export and import operations, without sacrificing customs security. The new rule established four qualification modalities – simplified, special, ordinary and restricted. The most significant change involved the modality of simplified qualification, which automatically included all corporate entities with operations in amounts of up to US$150,000 in the six-month period, corresponding to approximately 19,000 companies or 49% of the total. The SRF estimated that 60% of these companies could request simplified qualification, a modality for which the period of analysis was reduced from 30 to 10 days. The major advantages are as follows: increased rapidity in the processing of requests and easier access to the SRF, since the request can be submitted at any customs unit; and expansion of the legal security granted to qualified taxpayers, given the limitation on suspension of authorization for foreign trade operations. Mention should also be made of granting of qualification for indeterminate periods to rural producers, handicraft artists, artists and the like which, in the past, had to be granted individually in each operation.

Also in the context of simplification of foreign trade operations, the SRF issued Normative Instruction 680, dated 10.2.2006, consolidating the major administrative acts that discipline customs clearance of import operations and presented a clear and objective definition of the routine involving procedures to be followed for purposes of authorizing delivery of merchandise to the importer. Aside from this, MDIC/Secex Directive 35, dated 11.24.2006, consolidated all legislation on the administrative procedures to be followed in import and export operations. The time periods for export operations on a consignment basis; unwithdrawn margins targeted to fairs and expositions; agent commissions; and financing related to Exchange and International Capital Market Regulations were all adjusted to the terms of the new exchange legislation. One should further stress approval of Law 123, dated 12.14.2006, which instituted the Supersimples and the National Statutes for Micro and Small Businesses, in which the project calling for creation of the National Network for Simplification of Registration and Legalization of Companies and Businesses (Redesim) was included. Various entities involved in the process of registration and legalization of companies will now operate through a network, with the aim of reducing the current average period for opening a company from 39 days to a maximum of 15 days.

With regard to trade promotion strategy, Apex-Brazil continued its initiative of internationalizing Brazilian exporter companies by inaugurating Distribution Centers (CDs) in Frankfurt (Germany), Lisbon (Portugal) and Dubai (Arab Emirates). Four other Centers are being installed in Poland, Panama, South Africa and China. Through this system, Apex-Brazil rents large spaces and then sublets parts of those spaces to small and medium companies that already operate in the export market, thus obtaining economies of scale for those companies. A number of government and business missions traveled to strategic countries: in Japan, their objective was to explain Brazil's potential in the production and supply of ethanol, while discussing future partnerships in the semiconductor area; in Ireland, England and Austria, the mission's objective was to fulfill commitments related to cooperation in the area of industrial policy, culminating in the signing of a Brazil-Ireland cooperation agreement calling for development of industrial policies in strategic technological sectors; in South Africa, that continent's major economy, rising demand for Brazilian products led 30 Brazilian companies from six sectors to participate in several rounds of negotiations and seminars in that country.

Among the major trade promotion events organized by Apex-Brazil, particular mention should be made of the Germany 2006 campaign, which analyzed the similarities and differences between the two countries in the segments of sports and the economy. The overall objective of this effort was to emphasize the differences found in Brazilian products, while defining a personality for Brazilian trademarks in the year of the World Cup. Aside from this, 150 Brazilian companies participated in the International Food Salon in Paris. This is the largest food fair in the world and is held every two years. Thirty Brazilian companies from the auto parts sector participated in the largest fair of this type, held in Frankfurt in September 2006. Parallel to that event, meetings of the Brazil-Germany Agribusiness Group resulted in publication of Camex Resolution 13, dated 6.8.2006, creating a special classification for organic products within the Integrated Foreign Trade System (Siscomex), with the objective of identifying the major products exported and their destinations. This represents an attempt to measure this market, which, in light of strong demand in Japan, the USA and EU, is estimated to expand at an annual average pace of approximately 25%.

Once again, health protection has been a very important theme in the 2006 foreign trade agenda. An important measure adopted in this context was the Brazilian System of Identification and Certification of the Cattle and Buffalo Productive Chain (Sisbov), approved in July through issue of Mapa/Normative Instruction 17, which went into effect on 9.13.2006. The objective of Sisbov is to register and monitor both cattle born in the country and imported animals. It applies to the stages of production, transportation, distribution and agribusiness services. Adhesion of producers to Sisbov, scheduled to be concluded on 12.31.2007, is optional. However, this measure was adopted as a response to rising international market demand since there is no guaranty that products that do not have official certification will gain access to the major importer markets over the medium term. In February, the Brazilian government temporarily suspended authorizations for imports of boned meat and live animals susceptible to foot and mouth disease from the Province of Corrientez, Argentina, in response to an outbreak of the disease in that region. Imports of semen and meat not subjected to maturation processes where also prohibited, as were imports of other products not submitted to processes that would result in destruction of the virus, such as non-pasteurized milk-based goods.

In the area of trade defense, it is important to stress signing of the self-limitation agreement on exports of Chinese textile products to Brazil, which increased approximately 300% between 2003 and 2006. This agreement went into effect on 4.3.2006. The Memorandum of Understanding on Strengthening of Trade and Investment Cooperation between the two countries was published on 4.7.2006, while China adopted a voluntary limitation on exports to Brazil through 2008, including eight categories of textile products and apparel, corresponding to 76 tariff positions and 60% of textile imports. This Memorandum further determined that control of Chinese exports will be the task of both countries, since they have agreed to create a bilateral coordination group with the aim of exchanging information on statistics, methodologies and product lists.

In August, an agreement was signed among Brazilian manufacturers of toys and Chinese exporters, determining that Chinese products could participate at a level of 40% in the Brazilian market, the same level as in 2005. This agreement on Cooperation Criteria, formalized between the Brazilian Association of Toy Manufacturers (Abrinq), the Chinese Chamber of Commerce and the China Toy Association in the framework of the Memorandum of Understanding on the Strengthening of Trade and Investment Cooperation, was published by Secex Circular 87, dated 12.22.2006. It is important to emphasize that this understanding was reached following the end of application of safeguard measures, which had provided protection to the national toy industry for a period of 10 years.

As far as support to the export sector is concerned, BNDES-Exim disbursements set a record of US$6.4 billion, against US$5.9 billion in 2005, demonstrating the importance of capital goods exports, which accounted for 62% of disbursements. Resources targeted to preshipment credit lines (traditional, agile and special) accounted for 70.8% of the total amount released in the framework of this program, while those targeted to the postshipment line accounted for 29.2%, compared to respective levels of 54% and 46% in the previous year. Growth in demand in preshipment lines demonstrated the alterations that have made this modality more agile and competitive, with sharp reductions in the administrative costs of exporter companies. Financing of the agile preshipment line was initiated in April and the target public was defined as companies that produce consumer goods and capital goods in series, with more than one production cycle per year and frequent shipments. The new line finances up to 30% of the value of exports for a period of 6 to 12 months and simplifies corroboration through electronic media. The great advantage here resides in the dispensation from remitting documents as is required in conventional lines.

With regard to traditional and special preshipment modalities, no changes were introduced into their financing conditions, though several operational simplifications were adopted. In the first case, a system of loan amortizations was adopted with fixed maturity dates and payment in a single installment or in up to five monthly and consecutive installments; in the special preshipment modality, the base period utilized as reference for determining the export growth target of the beneficiary company shifted from 12 to 36 months.

Another improvement announced by BNDES-Exim and aimed at guarantying the competitiveness of national industry and attracting new investments into the automobile sector, was extension of support to exports of light passenger vehicles. Alterations in the framework of the BNDES-Exim automobile preshipment modality included growth in financing from 30% to 55% of the export commitment assumed by assembly companies, together with reduction in the basic operating spread from 4.5% to 3.8% per year, provided that the exporting company assume a commitment to increase or maintain employment levels in its industrial units during the period in which the export commitment remains in effect.

Another program in the preshipment line was launched in February with the aim of enhancing the competitiveness of footwear sector exports, since these industries had suffered losses as a result of Chinese competition. The initial budget for this program, set at US$70 million, has already been doubled in the current year. It is restricted to small and medium businesses and registered disbursements of US$95 million in 2006, benefiting 12 companies operating in the sector.

In 2006, Export Financing Program (Proex) operations totaled US$4 billion, up 6.5% compared to the previous year. This was a result mainly of the performance of interest rate equalization lines, with operations totaling US$3.6 billion, against US$3.3 billion in 2005. In the financing modality, exported value declined from US$492.3 million to US$437.2 million, with reductions from US$429.1 million to US$382.8 million in disbursements; from 1,746 to 1,391 in the number of operations; and from 452 to 337 in the number of exporters.

In 2006, the participation percentage of micro, small, medium and large businesses in the Proex framework remained at the previous year's level both in regard to exported value and disbursements effected, closing with respective results of 4%, 10%, 16% and 70% of exported value and 4%, 11%, 17% and 68% of disbursements. However, reductions occurred in both the number of operations and the number of exporters in all of the various business sectors; the largest proportional reduction occurred under large scale companies in terms of the number of operations, falling from 41 in 2005 to 29 in 2006, while microbusinesses posted the sharpest drop in the number of exporters, falling from 78 to 41.

The major economic sectors that utilized Proex Financing in 2006 were services, 56% of the total; machines and equipment, 23%; textiles, leather and footwear, 7%; agribusiness, 7%; and mineral products, 1%. The countries of Africa acquired 68% of exports carried out through this Proex modality, led by purchases from Angola, which accounted for 67% of acquisitions; followed by the Latin American Integration Association (Laia), 11%; the North American Free Trade Agreement (Nafta), 8%; the EU, 7%; and Asia-Pacific Economic Cooperation (Apec), with 2%.

Repeating the previous year's total, 1,716 interest rate equalization operations were carried out in 2006, involving 32 exporters, adding up to approximately 90% of the total value of operations processed through Proex. Of this total, 72% referred to exports of the transportation sector, followed by foreign sales of machines and equipment, 25%, and services, 2.6%. Nafta countries were the destination of 41% of these exports, while those targeted to the Laia member countries and the EU accounted for 18% and 8% of the total, respectively. Following the example of previous years, there was a strong concentration of operations involving large scale companies, accounting for 70% of the number of operations and 87% of the value exported through this modality.

Foreign trade operations processed through the Reciprocal Credit and Payment Agreement (CCR) generated a credit balance of US$2 billion, 56.6% more than in 2005, as export operations reached US$2.1 billion and imports totaled US$68.5

million. Following the example of the previous year, Venezuela was the major partner in the Agreement framework, 75.3% of Brazilian exports, followed by acquisitions from Peru, 6.8%; Ecuador, 4.8%; and Argentina, with 4.7%. Brazilian imports processed through the Agreement rose 59.3% compared to the previous year, with particularly strong performances in operations with Chile, Argentina and Uruguay which, taken together, accounted for a joint total of 95% of Brazilian imports carried out through the CCR.

Exchange policy

Consolidation of strategies involving both reductions in public sector exchange exposure and accumulation of international reserves was a central element of Brazilian exchange policy in 2006. One should stress the consistent line of action followed by the Central Bank, involving more flexible and simplified operational procedures and exchange registrations, such as export exchange coverage, all of which was done as a result of highly positive conditions generated by the solidity of the nation's balance of payments.

The external environment, characterized by strong financial market liquidity, world economic expansion and reduced risk aversion on the part of external investors, and a positive performance by the Brazilian economy which, for the fourth consecutive year, posted a current account surplus, was clearly favorable to continued implementation of measures aimed at increasing the economy's capacity to withstand external shocks. The Central Bank continued its strategy of expanding the international reserve stock, following the principle of taking advantage of market opportunities as they appear so as to avoid the possibility of increasing exchange market volatility and interfering in floating exchange system tendencies, with no commitment whatsoever to its level. The National Treasury continued its policy of acquiring resources on the exchange market to be used in servicing the external debt. At the same time, in its partnership with the Central Bank, it moved forward in the Brazilian external debts security buyback program, thus reducing short-term external borrowing requirements.

Central Bank and National Treasury activities became possible as a result of significant growth in the exchange market surplus, which shifted from US$18.8 billion in 2005 to US$37.3 billion in 2006. The increase in net inflows, particularly in the financial segment, was driven by such other factors as tax legislation alterations implemented by Provisional Measure 281, dated 2.15.2006, converted into Law 11,312, dated 6.27.2006, which reduced the income tax rate of nonresident investors from a 15% to zero on investments in federal public securities and emerging company investment funds, while also exempting operations from the CPMF involving public stock offers on the over-the-counter market, since current legislation already allows for exemption from this tax in stock market transactions.

In the year, net Central Bank exchange market purchases totaled US$34.3 billion and occurred in every month of the year with the sole exception of June. Aside from this, in order to reduce public sector exchange exposure, the Central Bank continued holding reverse exchange swap auctions in which it assumes the active position in exchange variation and the passive position in domestic interest rates. In the year, net redemptions of exchange instruments came to a cumulative total of US$10.1 billion. With regard to National Treasury market purchases, settlements totaled US$12.2 billion in the year, with US$9.2 billion concentrated in the first six months.

On 2.9.2006, the Central Bank and the National Treasury announced their intention of exercising their call option for all Brady bonds, which are Brazilian external debt instruments backed by United States treasury bonds issued during the 1992 external debt renegotiation process, together with the possibility of partial and anticipated buybacks of lines scheduled to mature through 2010. Later on, on 9.4.2006, this period was extended through 2012. This initiative should be seen together with other anticipations that have occurred since July 2005, including the exchange of Brady C-bonds for A-bonds, exercise of the call option for the remaining stock of C-bonds, then the principal debt security renegotiated on the market, anticipated payment of US$5 billion in July 2005 and US$15.5 billion in December 2005 to the International Monetary Fund (IMF), together with payment of US$2.6 billion to the Paris Club, as announced in December 2005 and effected in the period extending from January to May 2006.

In the year, security buybacks on the secondary market maturing between 2006 and 2024, including acquisitions of US$434 million in bradies in the period from January to March, totaled US$6 billion at face value, equivalent to a financial value of US$7.1 billion, plus interest and premiums. The Buyback Program generated overall interest savings of US$2.5 billion. The major objective of the Program was to reduce short-term external borrowing requirements, while contributing to improved perceptions of Brazil risk.

With regard to repurchases of bradies, the National Treasury announced on 3.23.2006 that it would exercise its call option, involving early buyback of the outstanding securities still on the market. This was done on 4.15.2006 in a total amount of US$5.8 billion. Exercise of the call and US$609 million in amortizations already scheduled for April resulted in buybacks totaling US$6.5 billion at par. In order to intensify measures aimed at reducing indebtedness and lengthening sovereign debt maturities, partial repurchase auctions involving Brazilian external debt securities denominated in dollars and euro and maturing up to 2030 were held on June 5 and 8. The result of this Tender Offer corresponded to repurchases of US$1.3 billion at face value, equivalent to US$1.6 billion in financial value.

The benign macroeconomic scenario and the lessening of the country's external vulnerability stimulated improvements in external debt management strategy. On 8.22.2006, the National Treasury announced that it was abandoning its targets for security issuances abroad, adding that from that point forward issuances would take on a qualitative character and would be utilized for the purpose of improving the sovereign debt profile through lengthening of maturities and interest rate reductions. The absence of targets for issuance of securities abroad provided the National Treasury with enhanced flexibility in external debt management. In the year, issuances of sovereign debt totaled US$5.5 billion, including Global 30 for Global 34 exchange operations, in the amount of US$198 million, and the Exchange Offer in the exchange for Global 37, in a total amount of US$500 million.

On 8.28.2006, the Central Bank increased the limit for anticipating National Treasury dollar contracting operations from 180 to 360 days, in relation to the date of settlement.

In this context, marked by improvement in macroeconomic fundamentals and sustainability indicators, record international reserves and foreign trade results and exchange flows entering the country, the conditions required for the major international risk rating agencies to improve the sovereign risk rating attributed to Brazil were solidified, bringing the country increasingly closer to the coveted investment grade rating. Following this same line, the spread measured by the Embi+, calculated by J.P. Morgan, followed a downward curve during the entire year, shifting from 311 points at the end of December 2005 to 192 points in the same period of 2006. Coincidentally, these were the maximum and minimum Embi+ rates registered during that period. Over the course of the year, the rate of exchange followed a pattern quite similar to fluctuation of the Embi+. The minimum level of R$2.0586/US$ was registered on 5.10.2006, marking the start of the period of relative turbulence on international financial markets as a result of the uptick in the Federal Reserve interest rate, and a maximum level of R$2.3711/US$ on 10.24.2006, as the cycle of financial instability continued.

For the fourth consecutive year, the dollar rate declined against the real, closing at R$2.138/ US$, based on the end-of-year Ptax-sale rate, registering 8.7% depreciation against the previous year. Deflated by the IPA-DI and IPCA, the effective real rate of exchange indices showed appreciation of the real equivalent to 0.3% and 1.3% in 2006, respectively. The positive scenario for the external sector of the Brazilian economy made it possible for the Central Bank to expand the exposure limit of banks in gold and assets and liabilities based on exchange rate variations from 30% to 60%, at the same time in which it issued Circular 3,333, dated 12.5.2006, repealing the restrictions implemented in 2002.

In terms of regulations, alterations were introduced into Brazilian exchange legislation. The external sector adjustment favored adoption of more flexible exchange regulations, resulting in cost reductions for exporter companies and efficiency gains for the economy as a whole. Provisional Measure 315, dated 8.3.2006, converted into Law 11,371, dated 11.29.2006, conferred greater legal security on the process of simplification of registration of exchange operations, including greater flexibility in the demand for exchange coverage in export operations, a rule that obligated companies to exchange foreign currency received abroad for national currency. Implementation of this measure demanded alterations in the Law.

The major modifications implemented by Law 11,371 were as follows:

I. Greater flexibility in the requirement for exchange coverage in export operations. Exchange resources consequent upon these operations may be held in financial institutions abroad, with due compliance with the limits set down by the CMN. CMN Resolution 3,389, dated 8.4.2006, set the amount that Brazilian exporters of merchandise and services may maintain abroad at a maximum of 30% of export revenues. The remainder must necessarily enter Brazil under the terms of more flexible rules. In this case, the CPMF is levied at a rate of 0.38%. Should the exporter company desire to maintain more than 30% abroad, it will have the option of formalizing simplified simultaneous exchange operations with the same banking institution and at the same rate of exchange, without issue or reception of money orders remitted either to or from abroad, but with payment of the CPMF at a rate of 0.38%. This Resolution was regulated by Central Bank of Brazil Circular 3,325, dated 8.24.2006, which also expanded the period for settlement of the export exchange contract from up to 210 days to as much as 360 days. In contrast, in the case of imports, the maximum period of 360 days was maintained in exchange operations between contracting and settlement of such contracts. Aside from this, the Circular also permitted utilization of the available cash reserves maintained in banks abroad for purposes of external payments in the name of the party holding the account, with the exception of the specific item set down in Law 11,371, dated 11.29.2006, as regards these payments; eliminated the limits on simplified contracting of exchange in import and export operations when carried out with banking institutions; the limit on simplified exchange operations in export and import operations was set at equal values of

US$20,000, when carried out by other SFN member institutions authorized to operate on the exchange market; and defined the procedures for simultaneous contracting of simplified export exchange for purposes of constituting available cash resources abroad, at the same time in which it eliminated the obligation of earmarking short-term export and import exchange contracts to the respective Siscomex registrations.

II. The Central Bank of Brazil will be accountable for maintenance of registration of the exchange operations and will provide data on these registrations to the SRF in the manner determined in a joint decision, as specified by Joint SRF/ Central Bank of Brazil Directive 1,064, dated 10.26.2006. Based on this information and other data included in registrations, the Federal Revenue Secretariat will monitor export revenues and, when required, will adopt the appropriate administrative proceedings, including application of the sanctions specified in national tax legislation.

III. Utilization of the exchange contract form as defined by the Central Bank of Brazil was made optional in operations in amounts of up to 3000 United States dollars, or the equivalent of that amount in other currencies.

IV. Registration by 6.30.2007 at the Central Bank of Brazil of all foreign capital held by companies located in the country on 12.31.2005 and not yet registered and not subject to other types of registration at the Central Bank. In thesis, this capital should already be registered at the Central Bank since it is subject to taxation; nonetheless, registration of this capital was impossible since it did not meet the formal conditions required for registration, such as the absence of effective foreign currency inflows to the country in the manner required by Law 4,131/1962.

V. Elimination of the fine on Brazilian import operations as a consequence of delays or noncontracting of the respective exchange operation.

VI. Optional payment in real in purchases of products acquired at free shops, authorized to operate in primary port and airport zones within the country, with equal treatment for both foreign and national currency.

In the month of September, continuing the process of exchange market reorganization and simplification, the CMN issued Resolution 3,412, dated 9.27.2006, eliminating still existent restrictions on investments in capital and derivative markets abroad by individuals and corporate entities in general. In taking this measure, Resolutions 1,968/1992 (stock market investments in Mercosul), 2,356/1997 (Depositary Receipts – DR), and 2,763/2000 (Brazilian Depositary Receipts – BDR), which dealt in differentiated manners with capital market and derivative market investments, were repealed. With regard to financial transfers related to investments abroad, the Resolution maintained the requirement of compliance with CMN provisions and specific regulations issued by the Central Bank of Brazil and CVM. This subject was regulated by Central Bank of Brazil Circular 3,328, dated 10.10.2006.

Parallel to these steps, CMN Resolution 3,417, dated 10.27.2006, expanded the maximum period between exchange operation contracting and settlement to 750 days. Furthermore, the Resolution defined rules and mechanisms for remitting data on export exchange contract settlements to the SRF, for purposes of controlling exchange coverage resources. Based on the same Resolution, the Central Bank issued Circular 3,330, dated 10.31.2006, determining that, in export exchange operations, the maximum period for settlement of the exchange contract is the final business day of the 12th month subsequent to that of shipment of the merchandise or rendering of the services. Prior contracting was maintained at 360 days prior to shipment or rendering of services.

Also with the objective of reorganizing and simplifying the exchange market, CMN Resolution 3,426, dated 12.22.2006, authorized constitution and operation of financial institutions specialized in exchange operations targeted to individuals and micro and small businesses that operate with small amounts and simplified export and import contracts. The minimum net required worth for institutions with differentiated profiles was set at R$7 million, while the demand of minimum equity of R$24 million was maintained for constitution of multiple banks operating in the segment of exchange. This measure sought to stimulate competition among institutions with the aim of broadening opportunities of access to the exchange market.

Exchange movement

Exchange market contracting operations expanded sharply in 2006 making it possible to achieve compatibility between the uptick in Central Bank exchange acquisitions and continued implementation of the National Treasury's policy of going to the market to obtain resources to service its external debt.

In 2006, the exchange market surplus set a record of US$37.3 billion, compared to US$18.8 billion in 2005. Net inflows in the commercial segment reached US$57.6 billion, against US$51.8 billion in 2005, the best result in the statistical series, with increases of 17.4% under exports and 21.8% under imports. The most representative share of growth in the exchange surplus reflected the performance of the financial segment. In this case, contracting operations produced net outflows of US$20.3 billion, US$12.1 billion less than in 2005, coupled with 62.5% growth in foreign currency purchases and 41.3% in sales.

The increase in flows targeted to direct and portfolio investments and private sector rollover rates higher than 200% were the major determining factors underlying the reduction in the deficit of exchange contracting operations in the

Table 5.1 – Foreign exchange operations

US$ million

Period	Operations with clients in Brazil							Operations banks abroad with (net)[1/]	Balance
	Commercial			Financial			Balance		
	Exports	Imports	Balance (A)	Purchases	Sales	Balance (B)	(C) = (A)+(B)	(D)	(E) = (C) + (D)
2003	73 203	44 848	28 355	72 118	98 094	-25 976	2 379	-1 661	718
2004	93 466	56 794	36 672	84 622	109 369	-24 747	11 925	-5 563	6 362
2005									
Jan	7 409	5 410	2 000	6 537	6 757	-221	1 779	-440	1 340
Fev	7 963	4 444	3 519	8 691	8 271	420	3 939	4	3 943
Mar	10 264	5 707	4 557	10 018	11 489	-1 470	3 086	-56	3 030
Abr	8 846	5 339	3 507	8 396	11 372	-2 976	531	0	531
Mai	10 284	6 026	4 258	6 893	11 961	-5 069	-811	0	-811
Jun	11 369	6 059	5 310	10 059	14 640	-4 581	728	0	728
Jul	11 274	5 723	5 552	11 432	14 949	-3 518	2 034	0	2 034
Ago	11 122	6 249	4 873	10 387	15 267	-4 880	-7	0	-7
Set	9 764	6 741	3 023	9 693	14 015	-4 322	-1 298	0	-1 298
Out	11 926	6 268	5 658	9 265	11 137	-1 872	3 786	0	3 786
Nov	10 429	7 112	3 317	11 853	12 400	-548	2 769	0	2 769
Dez	12 370	6 172	6 199	17 019	20 445	-3 426	2 773	0	2 773
Ano	123 021	71 248	51 772	120 241	152 703	-32 462	19 310	-492	18 819
2006									
Jan	9 410	6 261	3 149	13 631	14 831	-1 200	1 949	0	1 949
Fev	10 582	5 647	4 935	16 813	13 998	2 815	7 750	0	7 750
Mar	12 334	6 797	5 537	17 252	14 797	2 456	7 993	0	7 993
Abr	10 116	6 792	3 325	11 128	13 844	-2 715	609	0	609
Mai	14 080	6 750	7 330	17 372	17 199	174	7 504	0	7 504
Jun	11 144	7 568	3 575	16 689	22 940	-6 251	-2 676	0	-2 676
Jul	11 831	7 036	4 795	11 575	13 878	-2 303	2 492	0	2 492
Ago	12 379	8 554	3 824	14 410	16 944	-2 533	1 291	0	1 291
Set	12 522	7 022	5 501	14 516	14 882	-366	5 134	0	5 134
Out	11 690	8 955	2 735	28 589	28 137	452	3 187	0	3 187
Nov	12 751	7 661	5 090	17 319	16 909	410	5 500	0	5 500
Dez	15 537	7 734	7 802	16 086	27 352	-11 265	-3 463	0	-3 463
Ano	144 376	86 778	57 598	195 382	215 710	-20 328	37 270	0	37 270

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

financial segment. Strong inflows targeted to fixed yield securities demonstrated both the fiscal incentives granted by Law 11,312, as well as the high level of international investor confidence, as reflected in strong demand for shares of Brazilian companies.

Growth in the exchange surplus made it possible for the Central Bank to increase its net purchases from US$21.5 billion in 2005 to US$34.3 billion in 2006. The excess of the exchange surplus not acquired by the Central Bank was absorbed by the financial sector, as demonstrated by the reduction in the short spot market exchange position of banks from US$4.1 billion at the end of 2005 to US$2 billion in December 2006.

Balance of payments

In 2006, the structural process of strengthening the Brazilian balance of payments benefited from measures taken to reinforce the economy's capacity to withstand possible external shocks. The international reserve position increased sharply, setting new records; the public external debt remained on a downward trajectory, with evident improvement in the debt profile; external placements of sovereign bonds aided in constructing more complete interest curves; reductions in risk premiums continued at a steady pace; and the outlook for improvement in the ratings attributed by international risk rating agencies continued.

The evolution of sustainability indicators was impacted both by greater exports and increased volumes of external assets held by the monetary authority, reflecting the overall positive situation of Brazilian external accounts. This, evidently, further strengthened evolution of Brazil risk levels. The performance of the Brazilian foreign trade sector continued as the major factor underlying positive current account results, particularly growth in the trade surplus in a context of rising imports, considered consistent with the upturn in the pace of internal activity level.

Compared to the previous year, growth in net inflows of exchange to the country in 2006 targeted to direct and portfolio investments reflected positive results both in the exchange trade balance and in exchange spot market flows as related to financial accounts.

In 2006, the balance of payments surplus totaled US$30.6 billion, the sixth consecutive positive annual result and the largest ever registered. Excess external financing, defined as the sum total of the current account surplus and net foreign direct investment flows, reached US$32.3 billion in the year, 3.03% of GDP, against US$29.1 billion in the previous year, when it represented 3.29% of GDP.

For the fourth consecutive year, the balance of payments current account result closed in a surplus position, with a cumulative positive 2006 balance of US$13.5 billion, equivalent to 1.27% of GDP. Expansion of net remittances in the service and income accounts, shifting from US$34.3 billion in 2005 to US$36.9 billion in the year under analysis, was offset by the results of commercial operations and unilateral transfers. Capital and financial accounts closed with a positive result of US$17.3 billion in 2006.

Table 5.2 – Balance of payments

US$ million

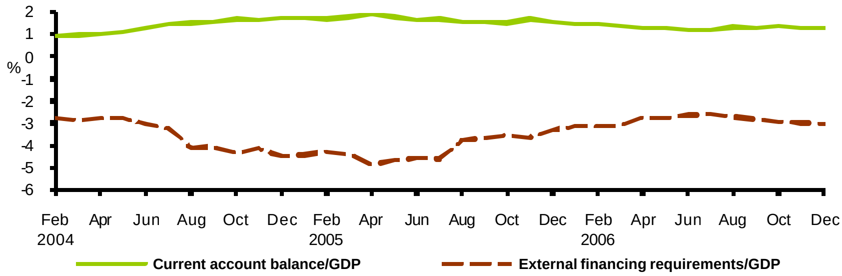
Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Trade balance - FOB	19 649	25 054	44 703	19 386	26 688	46 074
Exports	53 677	64 631	118 308	60 900	76 569	137 470
Imports	34 028	39 577	73 606	41 515	49 881	91 396
Services	-3 556	-4 753	-8 309	-4 066	-5 343	-9 408
Credit	7 513	8 535	16 047	9 134	10 304	19 438
Debit	11 069	13 287	24 356	13 199	15 647	28 847
Income	-12 528	-13 440	-25 967	-14 563	-12 881	-27 444
Credit	1 609	1 586	3 194	3 644	2 839	6 483
Debit	14 136	15 025	29 162	18 208	15 720	33 927
Current unilateral transfers (net)	1 683	1 874	3 558	2 036	2 270	4 306
Credit	1 893	2 157	4 051	2 279	2 568	4 847
Debit	-210	-283	-493	-243	-298	-541
Current account	5 249	8 736	13 985	2 793	10 735	13 528
Capital and financial account	4 367	-13 831	-9 464	5 782	11 495	17 277
Capital account 1/	399	264	663	430	439	869
Financial account	3 968	-14 095	-10 127	5 353	11 055	16 408
Direct investment (net)	6 732	5 817	12 550	2 883	-11 352	-8 469
Abroad	-1 782	-735	-2 517	-4 502	-22 749	-27 251
Equity capital	-1 847	-847	-2 695	-4 525	-17 937	-22 462
Intercompany loans	66	112	178	23	-4 812	-4 789
In the reporting country	8 514	6 552	15 066	7 385	11 397	18 782
Equity capital	6 050	8 995	15 045	5 376	9 998	15 373
Intercompany loans	2 464	-2 442	21	2 010	1 399	3 409
Portfolio investments	4 501	383	4 885	-719	9 341	8 622
Assets	-1 044	-727	-1 771	1 034	-1 463	-429
Equity securities	-708	-123	-831	-387	-1 480	-1 867
Debt securities	-336	-604	-940	1 421	17	1 438
Liabilities	5 545	1 111	6 655	-1 753	10 804	9 051
Equity securities	2 510	3 941	6 451	4 141	3 575	7 716
Debt securities	3 034	-2 830	204	-5 894	7 229	1 335
Financial derivatives	190	-229	-40	219	165	383
Assets	363	145	508	270	212	482
Liabilities	-173	-375	-548	-52	-47	-99
Other investments 2/	-7 455	-20 066	-27 521	2 970	12 902	15 872
Assets	503	-5 538	-5 035	-3 039	-126	-3 165
Liabilities	-7 958	-14 528	-22 486	6 009	13 028	19 036
Errors and omissions	16	-217	-201	-416	180	-236
Overall balance	9 632	-5 312	4 319	8 160	22 409	30 569
Memo:						
Current account/GDP (%)	1.21	1.94	1.58	0.54	1.96	1.27
Medium and long term amortizations 3/	16 896	16 365	33 261	12 146	20 807	32 953

1/ Includes migrants' transfers.

2/ Includes trade credits, loans, currency and deposits, other assets and liabilities and exceptional financing.

3/ Includes medium- and long-term trade credit repayments, medium- and long-term loan repayments, redemptions of medium and long-term debt instruments issued abroad.
Excludes Monetary Authority loan repayments and intercompany loan repayments.

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



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

Trade balance

For the sixth consecutive year, the 2006 balance of trade closed with a surplus. The positive result totaled US$46.1 billion, 3.1% more than in 2005. This represented the fourth consecutive annual record surplus. Exports closed at US$137.5 billion, 16.2% more than in 2005, and completed a period in which this heading set seven consecutive annual records. At the same time, imports totaled US$91.4 billion, for annual growth of 24.2%. This figure represented the fourth consecutive year of positive growth and the third consecutive annual record. The overall trade flow increased 19.3% in the year, closing at US$228.9 billion, the highest level ever registered.

Table 5.3 – Trade balance – FOB

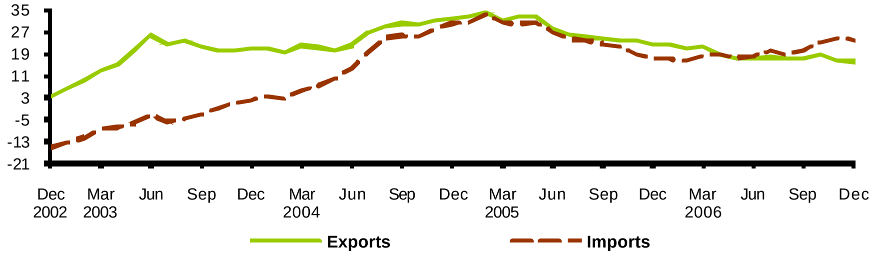
US$ million

Year	Exports	Imports	Balance	Trade flow
2005	118 308	73 606	44 703	191 914
2006	137 470	91 396	46 074	228 865
% change	16.2	24.2	3.1	19.3

Source: MDIC/Secex

Growth in 12-month cumulative exports continued on a declining trajectory in 2006, a process that began in February 2005 when growth under this heading closed at 33.9%. Moving in the opposite direction and in keeping with the benign macroeconomic scenario as evident in rising industrial output, growing employment and income, 12-month cumulative growth in imports continued expanding, moving from 16.2% in February 2006 to a maximum of 24.8% in November 2006, before closing the year at 24.2%.

Graph 5.2
Exports and imports – FOB



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

Significant improvement in the terms of trade over the course of 2005 and, primarily, in 2006, is viewed as one of the important factors underlying growing trade surpluses. The terms of trade index has expanded steadily since the fourth quarter of 2004, before closing 2006 at its highest level since October 1997.

Graph 5.3
Terms of trade index
1996 = 100

Source: Funcex

Just as occurred in 2005, 12.5% growth in price indices was a major factor underlying expansion of the Brazilian exports in 2006. The volume index rose 3.3%, compared to 9.3% in 2005.

Table 5.4 – Exports price and volume indices

change from the previous year (%)

Itemization	2005		2006	
	Price	Volume	Price	Volume
Total	12.2	9.3	12.5	3.3
Primary products	14.2	6.6	9.4	6.0
Semimanufactured goods	11.8	6.3	18.1	3.5
Manufactured goods	10.9	11.0	12.3	2.1

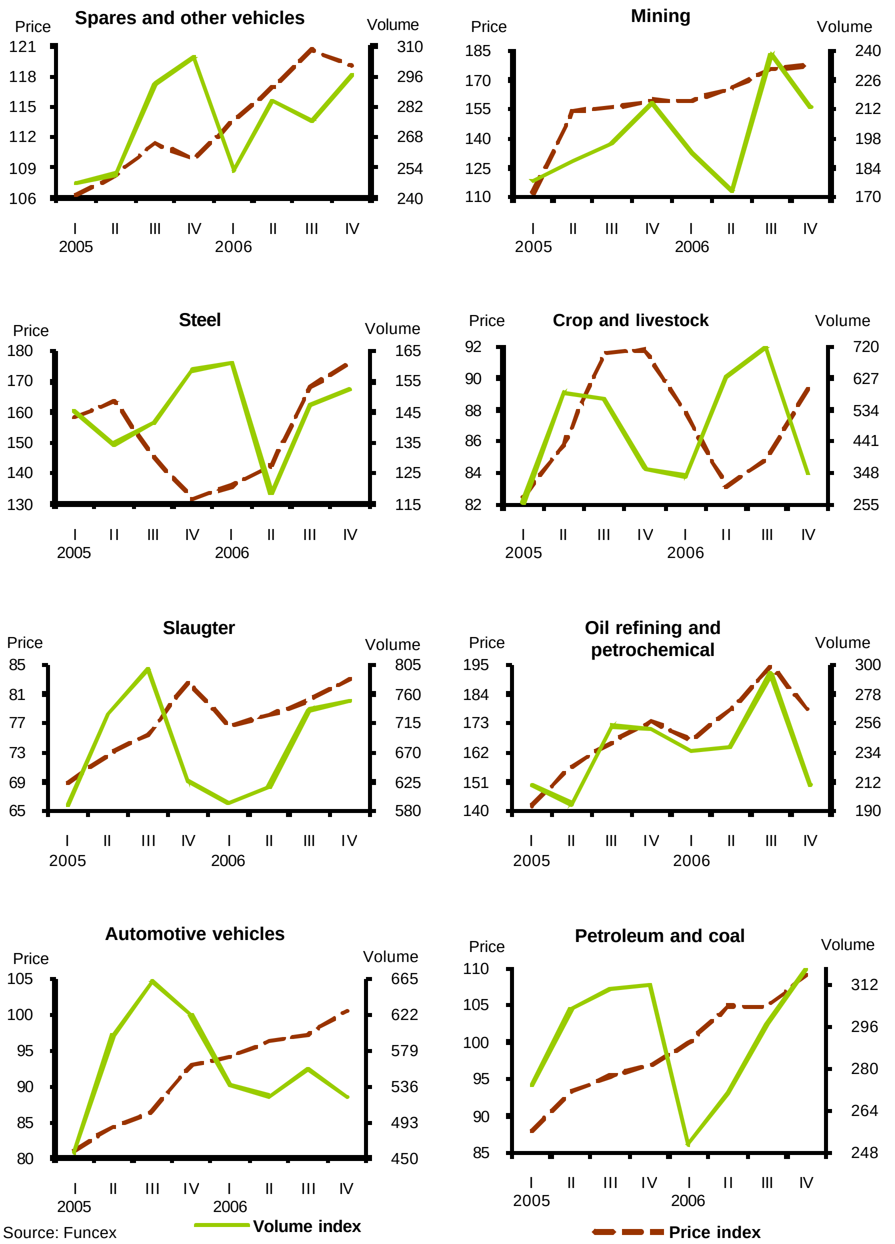
Source: Funcex

A breakdown of export operations by aggregate factors shows that more significant growth occurred in the price indices of semimanufactured goods, 18.1%, followed by manufactured products with 12.3%. The index for basic products, which had expanded at the sharpest pace in 2005, closed with growth of 9.4%, reflecting increases in the prices of oil, iron ore, beef and copper ore, coupled with downward movement under soybeans and chicken meat.

Graph 5.4

Quarterly price indices and volume of Brazilian exports

1996 = 100



Source: Funcex

With respect to manufactured products, substantial increases occurred in the prices of the major items, particularly raw sugar and metallic commodities, especially under refined aluminum, copper and zinc cathodes. The only prices that registered downward movement in 2006 were those of cocoa butter, fat and oil. Evolution of the prices of manufactured goods also reflected growth in the majority of the major products, with particular emphasis on refined sugar, ethyl alcohol, transmission and reception devices and passenger cars.

The volume index for basic products expanded 6% in 2006, compared to 6.6% in 2005, while growth rates in the categories of semimanufactured goods and manufactured products declined from 6.3% to 3.5% and from 11% to 2.1%, respectively.

Among basic products, it is important to highlight increases in the exported volume of oil, corn, iron ore and soybeans, coupled with reductions under soybean meal, chicken meat and pork. Performance in terms of the volume of semimanufactured exports reflected growth in sales of leather and hides, raw sugar, cellulose and copper cathodes, and reductions under soybean oil, cast-iron and Spiegel iron and sawn wood. Among manufactured products, the most important occurrences were increased exports under nontraditional products, such as ethyl alcohol and aluminum oxides and hydroxides, together with fuel oils and flat rolled steel. Moving in the opposite direction, the volume of exports of transmission and reception devices, passenger cars and refined sugar diminished.

Among the eight major export sectors, the crop/livestock sector was the only one to register a decline in prices compared to the previous year. The sharpest growth, 16.5%, occurred in the sector of mining, reflecting increased prices for iron ore, the major product among 2006 exports. In the sectors of oil refining and petrochemical production, automotive vehicles and oil and coal, growth figures surpassed the level of 12%, followed by auto parts, 7.9%; animal slaughters, 6.1%; and steel, 3.9%.

From the point of view of exported volumes, the crop/livestock sector turned in the sharpest volume growth, with 14.6%, followed by oil refining and petrochemical products, 7.3%; mining, 5%; and parts and other vehicles, 1.3%. Reductions occurred in the exported volumes of automotive vehicles, 8.5%; oil and coal, 5.1%; and animal slaughters, 1.8%; while the steel industry closed in a situation of stability.

Contrary to what occurred under exports, the volume of imports played a preponderant role in terms of expanded external purchases in 2006, registering growth of 16.1%, while prices increased 7%. This performance was uniform

Table 5.5 – Exports price and volume indices

change from the previous year (%)

Itemization	2005		2006	
	Price	Volume	Price	Volume
Total	11.1	5.4	7.0	16.1
Capital goods	6.2	21.4	0.8	24.0
Intermediate goods	7.3	6.0	3.5	15.7
Durable consumer goods	2.0	35.7	5.3	73.5
Nondurable consumer goods	9.2	9.5	13.1	14.0
Fuels and lubricants	35.3	-12.6	24.6	4.6

Source: Funcex

throughout all of the final use categories, with the exception of fuels and lubricants, which expanded 24.6% in terms of prices as a result of the sharp upturn in 2006 oil prices. The volume of fuels and lubricants imported increased 4.6% in the year.

In the year under analysis, the imported volume of consumer durables expanded 73.5%, registering the highest growth among the various final use categories just as occurred in the previous year. This result was a consequence of increased imports of passenger cars, 116%, and home appliances and machines, with 47%. Both of these figures were consistent with the scenario of exchange rate appreciation and real income gains. The prices of this use category rose 5.3%, impacted particularly by evolution in the prices of passenger cars.

The imported volume of capital goods increased 24% in 2006, compared to 0.8% price growth. Here the highlights were purchases of industrial machinery and office machines and apparatuses, as well as scientific devices, all of which were entitled to tax incentives.

The imported volume of raw materials and intermediate goods increased 15.7%, against 6% in 2005, while prices rose 3.5%, compared to 7.3% in the previous year. Here, the highlights were increases in imported volumes of mineral products, parts and spares, nonfood crop/livestock products and food products while, on the other hand, only purchases of transportation equipment accessories declined during the course of the year. In this category, only the prices of parts and spares and other raw materials for the farm sector declined in 2006.

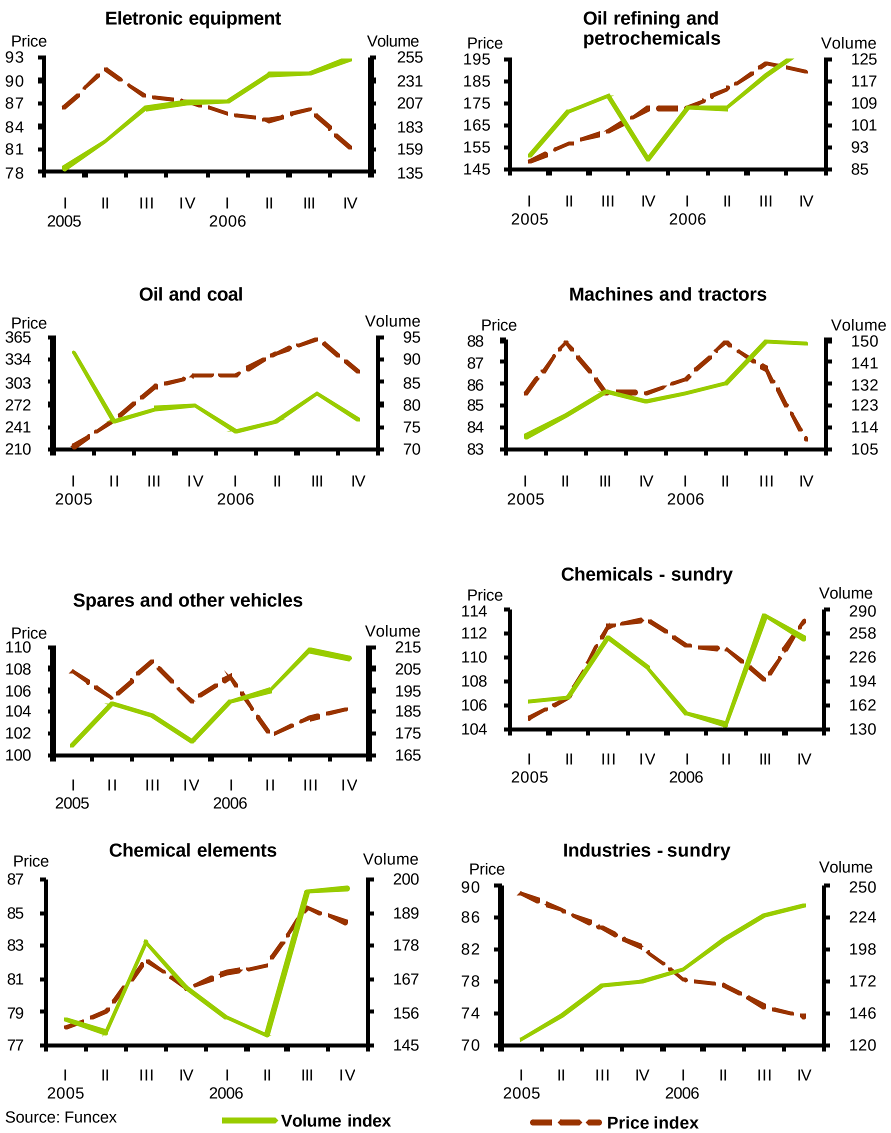
Prices for imports of nondurable consumer goods expanded 13.1% in 2006, while imported volume increased 14%. Price growth was more significant under pharmaceuticals and food products, the leading items in this sector, while growth in imported volume was more significant under apparel and other textile goods and beverages and tobacco.

Considering the major industrial sectors in which imported products originated, the sharpest 2006 price growth occurred under oil and coal, with 24.5%, and oil refining and petrochemical products, 15%, influenced by growth in oil prices, the major input in these sectors. At the same time, prices expanded 4.1% and 1.3%, respectively, in the sectors of chemical elements and diverse chemicals, while

Graph 5.5

Quarterly price indices and volume of Brazilian imports

1996 = 100



Source: Funcex

declining at a more accentuated pace under diverse industrial sectors, 11.3%, and electronic equipment, 4.4%.

With regard to the evolution of imported volume in the eight major imports sectors, only oil and coal turned in reductions, with 5.3%. The sharpest growth occurred in the imported volumes of diverse industrial sectors, 38.9%; electronic equipment, 31%; oil refining and petrochemical products, 16.6%; and machines and tractors, 15.6%.

Growth in exports by aggregate factor dropped sharply in terms of both external sales of basic products, a heading in which growth shifted from 21.8% in 2005 to 16% in 2006, and semimanufactured goods, dropping from 23% to 14.7%. Following 18.8% expansion in 2005, exports of semimanufactured products rose 22.3% in 2006, a figure quite close to the results for 2003 and 2004.

Table 5.6 – Exports by aggregate factor – FOB

US$ million

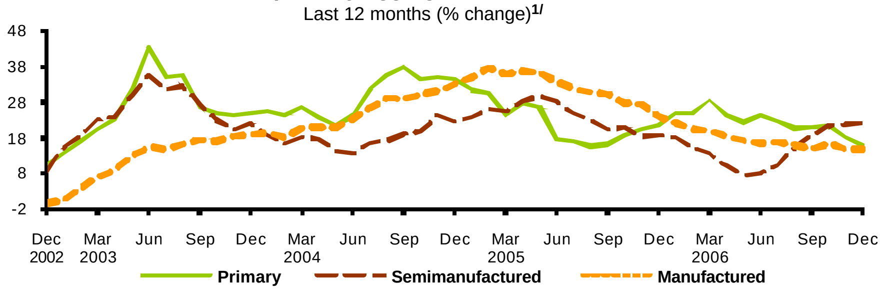
Itemization	2002	2003	2004	2005	2006
Total	60 362	73 084	96 475	118 308	137 470
Primary products	16 952	21 179	28 518	34 722	40 273
Industrial products	41 965	50 597	66 379	81 105	94 216
Semimanufactured goods	8 965	10 944	13 431	15 961	19 520
Manufactured goods	33 000	39 653	52 948	65 144	74 696
Special transactions	1 446	1 308	1 579	2 482	2 981

Source: MDIC/Secex

Graph 5.6

Exports by aggregate factor – FOB

Last 12 months (% change)1/



Source: MDIC/Secex

1/ From the same period of the previous year.

Exports of basic products, which totaled US$40.3 billion in 2006, for a daily average of US$161.7 million, corresponding to 16.9% growth compared to 2005, were concentrated under five major product headings – iron ore, oil, soybeans, beef and coffee, which accounted for 68.5% of the sales classified under this heading. With the exception of soybeans which registered a 4.8% reduction, these products posted positive growth in terms of both price and exported volume indices.

European Union member countries acquired 32.6% of Brazilian exports of basic products. In terms of total daily averages, these acquisitions came to US$52.7 billion, with annual growth of 5.4%. This amount represented 43.3% of acquisitions of basic goods by the bloc in 2006. The major items acquired by the EU were iron ore, soybeans, coffee, soy meal and oil. One should stress that daily average exports of oil to these countries expanded 51.9% and those of corn, which became the 13th most important basic product shipped to the EU, increased more than 1000%.

Table 5.7 – Exports – FOB – Major primary products

% change 2006/2005 – daily average

Products	Value	Price 1/	Weight 2/	Participation 3/
Iron ore and concentrates	23.6	13.4	9.1	22.2
Petroleum oils, crude	66.9	23.5	35.2	17.1
Soybean including grinded	6.8	-4.8	12.1	14.1
Meat of bovine animals	30.6	14.8	13.8	7.8
Coffee, not roasted	17.3	6.6	10.0	7.3
Meat and edible offal of chicken	-11.4	-6.1	-5.6	7.3
Oil-cake and other residues from soybeans	-14.9	-1.3	-13.8	6.0
Tobacco, unmanufactured; tobacco refuse	2.8	11.1	-7.4	4.2
Meat of swine	-11.1	5.5	-15.8	2.5
Cupper ore and concentrates	72.6	82.4	-5.4	1.3
Maize, unmilled	301.9	8.3	271.0	1.2
Cotton, not carded or combed	-24.2	-3.4	-21.5	0.8
Kaolin and other kaolinic clays	20.6	3.1	17.0	0.7
Marble and granite	28.9	3.5	24.5	0.5
Aluminum ore and concentrates	-14.6	19.9	-28.7	0.5
Cashew nuts	1.0	-3.0	4.1	0.5
Shrimp, frozen	-18.7	7.1	-24.1	0.4
Guts, bladders and stomachs of animals	9.8	14.2	-3.9	0.3
Grapes, fresh	11.3	-9.2	22.5	0.3
Meat and edible offal of turkey	-32.8	-5.7	-28.8	0.3
Other primary products	13.6	-	-	4.9

Source: MDIC/Secex

1/ Percentual change of the unit value in US$/kg terms.
2/ Percentual change of weight in kilograms.
3/ Percentual participation in primary products group total.

The major importers of basic products in the bloc were the Netherlands, with 19.7% of the total; Germany, with 19.4%; Italy, 12%; France, 10.7% and Spain, 9%. Daily average exports targeted to Portugal increased 66.2% in the year, making that country the seventh largest buyer of Brazilian basic goods targeted to the EU, right behind the United Kingdom, with a level of 7.3%.

Daily average sales of basic products to the countries of Asia totaled US$49 million in 2006, up 25.2% compared to the preceding year. This total represented 30.3% of exports under this category and 58.7% of Brazilian foreign sales to these nations, mostly involving iron ore, soybeans, oil, chicken meat and soy meal. Just as occurred in trade with the European Union, exports of oil and corn turned in the sharpest growth, with respective increases of 73.9% and 365%.

The major markets of destination in the region were China, which acquired 50.9% of Brazilian exports of basic goods; Japan, with 17.4%; South Korea, 9.9%; and Hong Kong, 4.7%. Daily average exports of basic goods targeted to India were driven by sales of oil and iron ore and expanded 183% in the year, transforming that country into the seventh largest market of destination in the region.

Daily average exports of basic goods targeted to the USA increased 69.3% in 2006, totaling US$14 million. This total accounted for 8.8% of Brazilian foreign sales in this category and 14.3% of total Brazilian products imported by the USA, concentrated mainly under oil, with annual growth of 186%; coffee, tobacco in leaf, and iron ore.

The LAIA member countries accounted for 6.9% of Brazilian exports of basic products, with a daily average total of US$11 million and annual growth of 54.4%. Of this total, equivalent to 8.9% of Brazilian foreign sales to the region, 23.4% were targeted to Mercosul member countries, mostly involving increased sales of oil, with 145%; iron ore, 16.6%; chicken meat, 5.7%; and coffee, 3%. The major markets of destination were Chile, with 42.9% of the total acquired by the region, followed by Argentina with 19.3%, Peru with 13.6%, Venezuela, 8.6%, and Mexico, 5.9%.

Exports of basic products targeted to other countries reached a daily average of US$35 million, 3.3% more than in 2005. This total represented 28.4% of sales to these countries and 21.4% of total exports of basic goods, concentrated mainly under beef, chicken meat and pork, iron ore and oil.

Exports of semimanufactured goods reached a total of US$19.5 billion in 2006, while the daily average of these operations totaled US$78 million, up 23.3% over the preceding year. The major products exported in this category were raw sugar, cellulose, semimanufactured products in iron or steel, leather and hides, and cast iron and Spiegel iron. In general, the prices of products classified in this category increased over the course of the year, particularly in the case of zinc, with 113%. Growth in volume indices was considerably more volatile, with increases in sales of leather and hides, 25.5%; and cellulose, 13.4%; coupled with reductions under semimanufactured products in iron or steel, 2.9%; cast-iron and Spiegel iron, 11.1%.

Average daily Brazilian exports of semimanufactured goods to the markets of Asia expanded 7.6% in 2006, rising to a level of US$18 million, 23.5% of exports under this heading and 22.1% of the total exported to the region. In this case, it is important to highlight sales of leather and hides, cellulose, aluminum, raw sugar and semimanufactured products in iron or steel which accounted for 10.6% of the total acquired by the region, despite a decline of 43.5% in the year. The major markets of destination for exports in this category were China, 27.8% of

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

US$ million – daily average

Product	2005	2006			
	Value	Value	Change from 2005 (%)	Share (%)	
				Total	Blocs
Total	471	552	17.1	100.0	-
Basic	138	162	16.9	29.3	-
Semimanufactured	64	78	23.3	14.2	-
Manufactured	260	300	15.6	54.3	-
Special transactions	10	12	21.1	2.2	-
Laia	101	126	24.4	22.8	100.0
Basic	7	11	54.4	2.0	8.9
Semimanufactured	4	5	38.3	0.9	4.0
Manufactured	90	109	21.3	19.7	86.3
Special transactions	1	1	38.0	0.2	0.7
Mercosur	47	56	19.9	10.1	100.0
Basic	2	3	19.5	0.5	4.7
Semimanufactured	1	2	30.8	0.3	3.3
Manufactured	43	51	19.6	9.3	91.7
Special transactions	0	0	14.8	0.0	0.3
USA 1/	91	99	9.4	18.0	100.0
Basic	8	14	69.3	2.6	14.3
Semimanufactured	17	17	-0.3	3.1	17.1
Manufactured	65	67	4.4	12.2	68.0
Special transactions	1	1	-11.2	0.1	0.5
European Union	105	122	15.6	22.1	100.0
Basic	50	53	5.4	9.6	43.3
Semimanufactured	12	17	41.3	3.2	14.3
Manufactured	43	52	20.0	9.3	42.3
Special transactions	0	0	16.1	0.0	0.1
Asia	74	84	13.0	15.1	100.0
Basic	39	49	25.2	8.9	58.7
Semimanufactured	17	18	7.6	3.3	22.1
Manufactured	17	16	-9.4	2.9	19.0
Special transactions	0	0	55.5	0.0	0.3
Others	100	122	21.5	22.0	100.0
Basic	33	35	3.3	6.3	28.4
Semimanufactured	13	20	52.5	3.7	16.8
Manufactured	45	56	25.8	10.2	46.4
Special transactions	8	10	21.4	1.8	8.4

Source: MDIC/Secex

1/ Includes Puerto Rico.

the total targeted to the region; Japan, 25.6%; South Korea, 9.5%; and Malaysia, 9.2%. Here, it is important to highlight the 90.7% increase in sales to Malaysia.

Exports of semimanufactured products to the countries of the European Union expanded 41.3% in 2006, closing with a daily average of US$17 million. This total represented 22.3% of Brazilian exports under this category and 14.3% of total Brazilian products imported by the region. For the most part, these products consisted of cellulose, leather and hides, unrefined aluminum, semimanufactured products in iron or steel, which expanded 163% in the year, and copper cathodes, which had not been exported to that region in 2005. The most important countries of destination were the Netherlands, with 31.7% of the total; Italy, with 21.8%; and Belgium-Luxembourg, 18%.

The United States was the destination for 21.6% of Brazilian sales of semimanufactured products in 2006, with a daily average of US$17 million, 17.1% of the Brazilian products acquired by that country. These results represented a situation of stability compared to the previous year. Here it is important to highlight sales of cast-iron and Spiegel iron, gold in semimanufactured forms,

Table 5.9 – Exports – FOB – Major semimanufactured goods

% change 2006/2005 – daily average

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Cane sugar, raw	66.5	49.4	11.5	20.2
Chemical wood pulp	22.9	8.3	13.4	12.7
Iron or nonalloy steel semifinished products	-0.4	2.5	-2.9	11.7
Hides and skins	35.3	7.8	25.5	9.6
Pig iron and spiegeleisen	-8.8	2.5	-11.1	8.4
Aluminum, unwrought	47.8	34.1	10.2	7.7
Wood, sawn or chipped lenghtwise	-3.4	10.4	-12.4	4.3
Iron alloys	18.7	27.0	-6.6	4.3
Soybean oil, crude	-18.3	6.3	-23.1	4.2
Gold, nonmonetary in semimanufactured forms	44.7	32.8	8.9	3.4
Aluminum alloys, unwrought	56.1	30.1	20.0	3.0
Cooper cathodes	234.7	94.9	71.7	1.9
Synthetic rubber and artificial rubber	3.7	6.6	-2.7	1.6
Nickel cathodes	26.7	47.5	-14.1	1.1
Zinc, unwrought	122.9	112.6	4.8	1.1
Cocoa butter, fat or oil	-7.2	-1.4	-5.9	0.7
Wood in chips or particles	5.9	18.4	-10.6	0.5
Nickel mattes	33.9	39.5	-4.0	0.5
Wood sheets	2.3	14.6	-10.7	0.4
Vegetable waxes	10.9	2.3	8.5	0.2
Other semimanufactured products	11.9	-	-11.0	2.6

Source: MDIC/Secex

1/ Percentual change of the unit value in US$/kg terms.
2/ Percentual change of weight in kilograms.
3/ Percentage participation in semimanufactured products group total.

with growth of 53.8% in the year, semimanufactured products of iron or steel and cellulose.

Average daily exports of semimanufactured goods to the Laia countries increased to 38.3% in 2006, accounting for a total of US$5 million. This total corresponded to 6.5% of Brazilian exports under this heading and 4% of total Brazilian products imported by the bloc, principally iron or steel, cast-iron and Spiegel iron, synthetic and artificial rubber, iron alloys and unrefined sugar, which increased 607% in the year. The Mercosul countries were responsible for 36.1% of exports

Table 5.10 – Exports – FOB – Major manufactured goods

% change 2006/2005 – daily average

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Passenger motor vehicles	5.4	12.7	-6.5	6.2
Airplanes	3.1	-7.9	12.0	4.3
Parts and acessories for motor cars and tractors	20.9	18.1	2.4	4.0
Transmission and reception apparatus, and components	6.9	29.3	-17.3	3.9
Passenger motor vehicles engines and parts thereof	21.6	10.8	9.7	3.7
Iron or nonalloy steel flat-rolled products	15.0	-0.8	15.9	3.6
Fuel oils	44.4	17.9	22.4	3.0
Cane sugar, refined	46.4	57.3	-6.9	3.0
Footwear, parts and components	-0.3	7.5	-7.2	2.6
Motor vehicles for the transport of goods	12.0	13.1	-0.9	2.5
Ethyl alcohol, undenatured	111.3	59.6	32.4	2.1
Civil engineering and contractors' plant and equipment	17.6	-1.1	19.0	1.9
Polymer of ethylene, prophylene and sthyrene	37.5	11.5	23.3	1.8
Pumps, compressors, fans and others	13.5	-3.7	17.9	1.8
Electric motors, generators and transformers; parts thereof	48.1	14.0	30.0	1.8
Tractors	0.8	10.4	-8.7	1.7
Gasoline	13.4	18.7	-4.5	1.6
Aluminum oxide and aluminum hydroxide	94.0	33.1	45.7	1.5
Orange juice, frozen	32.1	42.7	-7.4	1.4
Chassis fitted with engines and bodies for motor vehicles	11.2	16.3	-4.4	1.4
Pneumatic rubber tires	23.6	13.3	9.1	1.4
Iron and steel bars and rods	-7.6	12.4	-17.7	1.3
Furniture and parts thereof, except for medical-surgical use	-3.6	5.6	-8.7	1.3
Paper and paperboard used for writing, printing etc.	4.6	11.7	-6.4	1.0
Iron and steel tubes, fittings for tubes	35.7	19.8	13.3	0.9
Marble and granite works	36.5	12.3	21.5	0.9
Hydrocarbons and halogenated derivatives	12.8	14.5	-1.5	0.9
Prepared meals of the meat of bovine animals	25.7	9.6	14.6	0.9
Plywood and similar laminated wood	-16.5	6.1	-21.3	0.9
Gears and gearing; ball screws; gear boxes, etc; parts thereof	8.1	14.2	-5.3	0.8
Other manufactured products	12.2	-	3.4	35.9

Source: MDIC/Secex

1/ Percentual change of the unit value in US$/kg terms.
2/ Percentual change of weight in kilograms.
3/ Percentage participation in manufactured products group total.

to the Laia countries, with annual growth of 30.8%, while the major markets of destination in the region were Mexico, 30.4% of the total; Argentina, with 29.9%; Columbia, with 10.9%; and Venezuela, 9.3%. Here, it is important to make special mention of 126% and 164% annual growth registered in the acquisitions of the two latter countries, respectively.

Countries not included in the blocs mentioned above were the markets of destination for 26.1% of exports of semimanufactured products, with growth of 52.5% in the daily average of US$20 million, compared to the previous year. Sales of this category represented 16.8% of the total exported to this group of nations, with the largest concentration in Russia, 24.8% of the total; Iran, 12.7%; Canada, 10.2%; Switzerland, 10.1%; and Egypt, 6.2%. In this context, it is important to mention 116% and 126% growth in exports to the two latter countries, respectively. The major items acquired by this grouping of countries were raw sugar, 63.8% of the total, with growth of 84%; refined soybean oil, semimanufactured products in iron or steel and unrefined aluminum.

In 2006, exports of manufactured products totaled US$74.7 billion, with a daily average of US$300 million, up 15.6% over 2005, the lowest level of growth among the various categories of aggregate factors. Among the 10 major items in this category, which accounted for only 36.8% of the total – clearly demonstrating the high degree of diversification of the nation's exports – the only item that registered a decline in the year was that of footwear sales, with 0.3%. Giving due consideration to price variations, losses were registered under the headings of aircraft, 7.9%, and flat rolled steel, 0.8%, with reductions in the exported volumes of passenger cars, 6.5%; transmission or reception devices, 17.3%; refined sugar, 6.9%; and footwear, 7.2%. Exports of passenger cars accounted for 6.2% of sales in this category; followed by aircraft, 4.3%; auto parts, 4%; transmission and reception devices, 3.9%; automobile engines, 3.7%; flat rolled steel, 3.6%; and fuel oils, 3%. Particular emphasis should be given to growth in the exported value of ethyl alcohol, 111%; refined sugar, 46.4%; and fuel oils, 44.4%.

The Laia countries were the major markets of destination for Brazilian exports of manufactured products. The daily average of US$109 million increased 21.3% compared to 2005, corresponding to 86.3% of the total exported to the bloc and 36.3% of total manufactured products exported in 2006. These operations were heavily concentrated under passenger cars, transmission and reception devices, auto parts and cargo vehicles. Sales to the Mercosul countries, which expanded 19.6% in the year, accounted for 47.2% of the total acquired by the bloc. On an individual basis, sales to Argentina were responsible for 39.7% of the total targeted to the region, followed by shipments to Mexico, 14.4%; Venezuela, 11.5% and Chile, 9.7%.

Average daily sales of manufactured products to the USA reached US$67 million in 2006, with annual growth of 4.4%. This amount represented 68% of the total exported to the USA and 22.5% of Brazilian exports in this category, mainly concentrated under aircraft, automobile engines, ethyl alcohol, footwear and auto parts. Exports of ethyl alcohol to the USA expanded more than 1000% in the year and represented 55% of the sales of this product. This performance is evidence of the growing international importance of this product either as an alternative fuel source or mixed with oil derivatives.

Exports of manufactured products to the European Union added up to US$52 million per day, with annual growth of 20%. This total represented 42.3% of Brazilian sales to that bloc and 17.2% of the final destination of the country's exports of manufactured goods, principally to Germany, with 21.6%; the Netherlands, 13.8%; the United Kingdom, 13.4%; Belgium-Luxembourg, 10.3%; and Italy, 10.2%. The major manufactured products exported to the bloc were automobile engines, flat rolled steel, aircraft, passenger cars and orange juice. Exports of refined soybean oil to the European Union expanded 529% in the year, coming to represent 2.6% of overall sales of Brazilian manufactured products to that bloc.

Table 5.11 – Exports by tecnological intensity – FOB

US$ million – daily average

Itemization	2005	2006		
		Value	Growth %	Participation %
Total	471	552	17.1	100.0
Industrial products	366	421	14.9	76.2
High tecnology	35	38	7.8	6.8
Aircraft	15	15	1.9	2.7
Telecom, audio and video equipment	13	14	8.3	2.6
Other	7	8	19.4	1.5
Middle-high tecnology	115	130	13.0	23.6
Road motor vehicles	51	57	11.4	10.3
Non-electrical machinery Nesoy	30	33	10.0	6.0
Chemicals products, excluded pharmaceutical	24	27	14.5	4.9
Other	10	13	26.4	2.3
Middle-low tecnology	83	100	20.8	18.1
Fabricated metal products	56	68	20.9	12.3
Petroleum products and other fuels	12	15	27.9	2.7
Other	15	17	14.9	3.1
Low tecnology	133	153	14.8	27.7
Food, beverages and tobacco	82	96	17.9	17.5
Wood, paper and pulp	26	29	12.1	5.3
Textiles, hides and skins and footwear	20	22	9.6	4.0
Manufactured products Nesoy and recycled products	5	5	0.5	1.0

Source: MDIC/Secex,

Average daily sales of manufactured products to Asia reached US$16 million, for an annual reduction of 9.4%. This total, which represented 5.3% of the value of exported manufactured goods in 2006, was concentrated in fuel oils, refined sugar, flat rolled steel and orange juice. Differently from the other regions, one should emphasize that exports of ethyl alcohol to Asia dropped 50.9% in 2006. The major countries of destination in the region were China, 22.2% of the total; Singapore, 17.7%, Japan, 14.8%; India, 9.6%; and South Korea, 8.1%.

Exports of manufactured products to other countries registered a daily average of US$56 million, with growth of 25.8% over 2005. This amount represented 46.4% of the total exported to that group of countries and 18.8% of total exports of manufactured goods, with emphasis on sales targeted to Canada, 11.1% of the total; South Africa, 8.2%; Nigeria, 7.5%; the Bahamas, 5.4%; and Angola, 5.4%. The major manufactured products acquired by these countries were refined sugar, aircraft, gasoline, aluminum oxides and hydroxides and fuel oils.

Foreign sales of industrial products reached US$105 billion in 2006, registering a daily average of US$421 million, 14.9% more than in the previous year. A breakdown according to the level of technological complexity shows that low technology products accounted for 27.7% of total Brazilian foreign sales, with a daily average of US$153 million. Daily average exports of products considered as average-high, average-low and high technological complexity reached US$130 million, US$100 million and US$38 million, respectively, equivalent to 23.6%, 18.1% and 6.8% of overall Brazilian exports.

The increased dynamics of industrial product exports was concentrated in the segment classified as medium-low technological complexity and reflected the performance of the sector of oil derivatives, particularly fuel oils and, more recently, ethyl alcohol. Parallel to this, exports of metallic products continued expanding at an accentuated pace, driven by the still highly favorable international

Table 5.12 – Imports – FOB

US$ million

Itemization	2002	2003	2004	2005	2006
Total	47 237	48 305	62 813	73 606	91 396
Capital goods	11 643	10 351	12 133	15 387	18 912
Raw materials and intermediate product	23 446	25 825	33 503	37 804	45 286
Consumer goods	5 908	5 538	6 861	8 484	11 996
Durable	2 508	2 417	3 188	3 928	6 078
Nondurable	3 400	3 121	3 673	4 556	5 919
Fuels and lubricants	6 240	6 591	10 315	11 931	15 201

Source: MDIC/Secex

scenario. Sales of high technology industrial products, the most dynamic on the international market, registered the lowest rate of annual growth, reflecting the slow recovery of the aircraft industry and the only modest performance of the communications equipment industry. In previous years, these segments had registered the most accentuated growth.

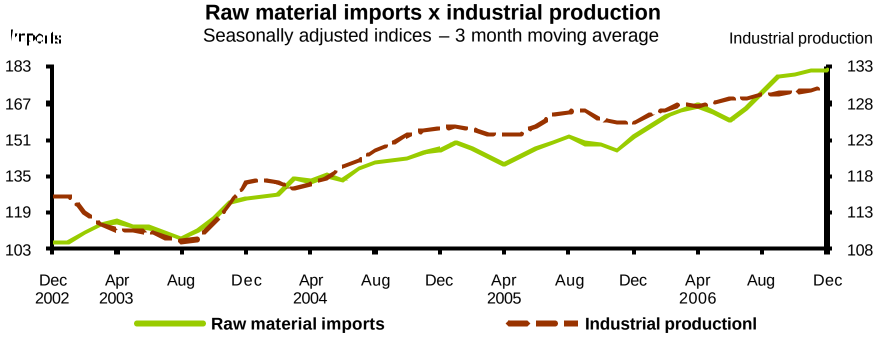
For the third consecutive year, import operations expanded under all final use categories, as only purchases of capital goods expanded at a rate below that of 2005. The evolution of purchases of both raw materials and intermediate products, which accounted for approximately half of 2006 imports, as well as capital goods, demonstrated the growth trajectory in the output of the manufacturing sector. At the same time, imports of nondurable consumer goods and consumer durables were driven by exchange appreciation and, consequently, took on greater importance during the year. It should be stressed that growth in purchases of capital goods, raw materials and intermediate products and consumer durables was linked mainly to volume increases, while price growth was the determining factor underlying expanded imports of fuels and lubricants.

Imports of raw materials and intermediate products registered a daily average of US$182 million, with annual growth of 20.8%, and came to represent 49.5% of total imports, compared to 51.4% in 2005. In this case, it is important to highlight purchases of chemical and pharmaceutical products, 27% of total; mineral products, 20.4%; intermediate goods – parts and spares, 17.3%; and transportation equipment accessories, 13.9%. Imports of the major product groupings in this category registered value increases, mostly as a consequence of more rapid growth in volume than in the prices.

Graph 5.7

Raw material imports x industrial production

Seasonally adjusted indices – 3 month moving average



Source: IBGE and Funcex

Imports of raw materials and intermediate goods originating in the EU reached a daily average of US$44 million, equivalent to 24.4% of imports under this category and 54.9% of the total imported from that bloc. This amount represented growth of 8.2% compared to the previous year, led by imports of auto parts, automobile engines, heterocyclic compounds, ball bearings and gears and parts and spares for aircraft. The major supplier countries were Germany, 30.7% of total purchases originating in that bloc; France, 16.3%; and Italy, 10.6%.

Table 5.13 – Imports – FOB – Major products

% change 2006/2005 – daily average

Products	Value	Price 1/	Weight 2/	Participation 3/
Capital goods				100.0
Industrial machinery	25.9	-3.5	30.5	28.1
Machines and apparat. for office and scientific destination	28.3	-6.1	36.6	22.8
Capital goods parts and components	15.9	1.3	14.4	10.6
Transportation movable equipment	46.0	16.3	25.6	7.4
Industrial machinery accessories	9.5	-2.4	12.2	7.1
Tools	30.0	0.7	29.0	1.7
Other capital goods	19.8	-70.1	300.4	22.3
Intermediate products and raw material				100.0
Chemical and pharmaceutical products	15.3	9.9	4.9	27.0
Mineral products	46.4	11.0	31.9	20.4
Intermediate products – Parts	17.6	-6.1	25.3	17.3
Accessories for transport equipment	7.2	9.3	-1.9	13.9
Inedible farm products	36.2	11.7	22.0	7.0
Other raw materials for farming	1.4	-7.2	9.3	6.7
Foodstuffs	31.3	5.6	24.4	3.8
Other raw materials and intermediate products	23.0	8.7	13.2	3.9
Nondurable consumer goods				100.0
Pharmaceutical products	29.9	21.4	7.0	36.7
Foodstuffs	26.8	20.2	5.4	29.2
Apparel and other textiles clothing	65.4	16.3	42.3	7.6
Perfumery, cosmetics, or toilet preparations	18.2	12.5	5.0	5.5
Tobacco and beverage	36.4	7.3	27.1	4.8
Other nondurable consumer goods	31.6	2.8	28.1	16.2
Durable consumer goods				100.0
Passenger motor vehicles	135.7	9.1	116.0	31.5
Articles for personal use or adornment	24.9	4.1	20.0	22.9
Machines and appliances for household use	58.7	7.9	47.0	21.3
Durable consumer goods parts	19.1	10.0	8.2	12.4
Furniture and other household equipment	38.9	7.0	29.8	4.5
Other durable consumer goods	38.7	7.5	29.0	7.4
Fuels and lubricants				100.0
Fuels	28.2	26.1	1.7	97.9
Lubricants and electricity	38.4	57.3	-12.0	2.1

Source: MDIC/Secex

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

Average daily purchases from Asia, the second most important bloc of origin of raw materials and intermediate product imports, reached US$43 million, 23.4% of the total of this category. Imports posted growth of 32.6% over 2005, accounting for 46.3% of the total acquired from the countries of the region and 11.6% of total Brazilian external purchases in 2006. The major products in this category imported from Asia were integrated circuits and electronic micro-boards, parts and accessories for computers, synthetic or artificial textile yarns, auto parts and parts for transmission and reception devices. The major suppliers of raw materials and intermediate products in the region were China, 28.1% of the total; Japan, 19% of the total; South Korea, with 14.5%; and Taiwan, 8.7%.

Imports of raw materials and intermediate products originating in the Laia countries totaled US$40 million per day, with annual growth of 35.7%. This total represented 61.2% of Brazilian purchases from that bloc and 22.1% of total imports of products classified in that category. In terms of origin, these products came mostly from Argentina, 47.8% of the total, and Chile, with 26.5%. One should highlight imports of copper cathodes, copper ore, wheat and naphthas.

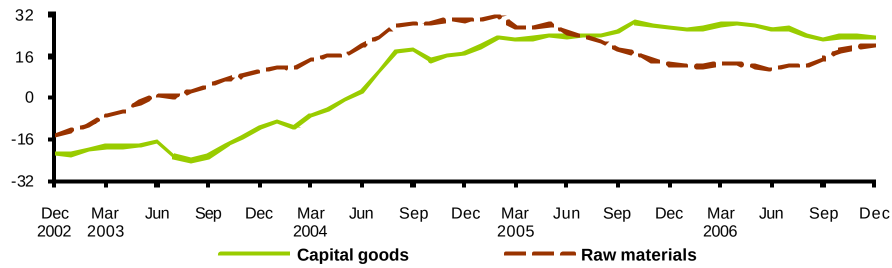
Raw materials and intermediate products originating in the USA totaled US$34 million per day, with growth of 14.2% compared to 2005. This total represented 57.2% of imports originating in the USA and 18.8% of the category and was concentrated mainly in aircraft engines and turbines and parts and spares for aircraft.

Imports of raw materials and intermediate products from other countries closed with a daily average of US$21 million, up 14.5% over 2005. This total represented 29.9% of the total imported from these countries and 11.4% of imports under this final use category. In this case, one should stress such items as naphthas, potassium chloride and fertilizers. The major countries of origin of imports in this category were Russia, with 17.5% of the total; Canada, with 13.8%; Switzerland, 9.9%; South Africa, 7.3%; and Israel, 7.1%.

Graph 5.8

Brazilian imports by end use category – FOB

Last 12 months (% growth)[1/]



Source: MDIC/Secex

1/ From the same period of the previous year.

Imports of capital goods added up to US$76 million per day in 2006, with annual growth of 23.9%. This amount represented 20.7% of the total imported by the country in the year and, for the most part, reflected the evolution of purchases of

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

US$ million – Daily average

Product	2005	2006			
	Value	Value	Change from 2003 (%)	Share (%)	
				Total	Blocs
Total	293	367	25.2	100.0	-
Capital goods	61	76	23.9	20.7	-
Durable consumer goods	16	24	56.0	6.7	-
Nondurable consumer goods	18	24	31.0	6.5	-
Fuels and lubricants	48	61	28.4	16.6	-
Raw material and intermediate goods	151	182	20.8	49.5	-
Laia	46	66	41.7	17.9	100.0
Capital goods	4	5	32.2	1.3	7.1
Durable consumer goods	2	6	159.6	1.6	8.9
Nondurable consumer goods	5	6	22.7	1.6	8.8
Fuels and lubricants	6	9	47.5	2.5	14.0
Raw material and intermediate goods	30	40	35.7	10.9	61.2
Mercosul	28	36	28.2	9.8	100.0
Capital goods	3	4	26.1	1.0	9.8
Durable consumer goods	2	4	123.4	1.2	11.9
Nondurable consumer goods	4	4	19.8	1.2	12.3
Fuels and lubricants	2	2	19.5	0.5	5.5
Raw material and intermediate goods	18	22	20.9	5.9	60.5
USA[1/]	51	60	16.5	16.2	100.0
Capital goods	13	16	18.4	4.3	26.3
Durable consumer goods	2	2	27.1	0.6	3.7
Nondurable consumer goods	3	4	22.1	1.0	6.1
Fuels and lubricants	3	4	18.3	1.1	6.7
Raw material and intermediate goods	30	34	14.2	9.3	57.2
European Union	72	81	11.8	22.0	100.0
Capital goods	21	23	10.7	6.4	28.8
Durable consumer goods	4	5	29.4	1.4	6.3
Nondurable consumer goods	5	6	27.7	1.8	8.0
Fuels and lubricants	1	2	27.3	0.4	2.0
Raw material and intermediate goods	41	44	8.2	12.1	54.9
Asia	67	92	36.8	25.0	100.0
Capital goods	21	29	39.4	7.8	31.3
Durable consumer goods	7	11	49.9	2.9	11.7
Nondurable consumer goods	3	5	46.7	1.3	5.2
Fuels and lubricants	4	5	24.9	1.4	5.5
Raw material and intermediate goods	32	43	32.6	11.6	46.3
Others	56	69	22.8	18.8	100.0
Capital goods	3	4	24.6	1.0	5.2
Durable consumer goods	1	1	-3.9	0.1	0.8
Nondurable consumer goods	2	3	45.0	0.8	4.5
Fuels and lubricants	33	41	26.3	11.2	59.7
Raw material and intermediate goods	18	21	14.5	5.6	29.9

Source: MDIC/Secex

1/ Includes Puerto Rico.

industrial machinery, office machines and apparatuses and parts and spares for industrial capital goods.

Daily average purchases of capital goods from Asia, the major supplier of these products to Brazil in 2006, reached US$29 million, for annual growth of 39.4%. This total, which represented 31.3% of imports originating in Asia and 37.9% of total capital goods imports in 2006, was concentrated in parts for transmission and reception devices, computers and parts, liquid crystal devices, engines, generators and electric transformers and printed circuits. The major supplier countries in the region were China, 42.1% of the total; Japan, 17.5%; South Korea, 14.4%; and Taiwan, 9%. Imports from China rose 51.3% in the year.

Imports of capital goods from the countries of the European Union totaled US$23 million per day in 2006, with annual growth of 10.7%. This amount represented 28.8% of the total amount imported from that region and 30.7% of Brazilian purchases of products in this final use category, with particular emphasis on imports of measuring and verification instruments and apparatuses; pumps, compressors and fans; and engines, generators and electric transformers; and apparatuses for purposes of electricity interruption and protection. It is important to stress annual growth of 83.5% in imports of engines, generators and electric transformers. The major capital goods supplier countries in that bloc were Germany, 39% of the total; Italy, 17.6%; and France, 10.1%.

Daily purchases of capital goods from the United States expanded 18.4% in 2006, reaching a level of US$16 million, representing 20.6% of the total of this use category and 26.3% of the total imported from that country. The major products acquired were measuring and verification instruments and apparatuses; computers and their respective units; earthmoving and drilling machines and equipment; medical instruments and apparatuses and pumps, compressors and fans.

Capital goods originating in the Laia countries added up to US$5 billion per day, with growth of 32.2% compared to 2005. This total represented 7.1% of imports originating in the region and 6.1% of the category as a whole and was concentrated under cargo vehicles; measurement and verification instruments and apparatuses; and buses and other vehicles for more than 10 people. The major supplier countries for this category of products in the bloc were Argentina, 74.7% of the total, and Mexico, with 20.1%.

Imports of capital goods from other countries totaled a daily average of US$4 million, with an annual increase of 24.6% compared to 2005. This total represented 5.2% of the total amount imported from those countries and 4.7% of the imports of this final use category. These operations were concentrated under purchases of earthmoving and drilling machines and equipment; measurement and verification instruments and apparatuses; and pumps, compressors and fans. The major supplier countries in this bloc were Switzerland, 37.1% of the total; Canada, 23.8%; Norway, 10.6%; and Israel, 9.8%.

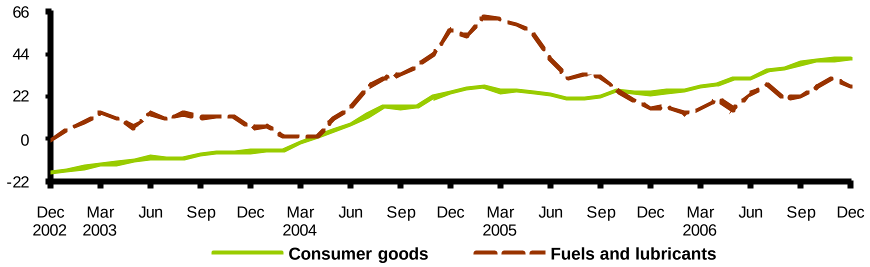
Imports of fuels and lubricants reached a daily average of US$61 million in 2006, with annual growth of 28.4%, driven mainly by the evolution of prices. Imports of crude oil accounted for 59.8% of the total in this category, followed by fuel oils, coal and natural gas. The major supplier countries of fuels and lubricants were Nigeria, with 24.6% of the total; Algeria, 10.8%; Saudi Arabia, 10.1%; Bolivia, 9.2%; the USA, 6.6%; and India, 5%. Imports from Nigeria, Algeria and Saudi Arabia accounted for 74.8% of the oil imported during the year.

Purchases of consumer durables expanded 56% in 2006, rising to US$24 million per day or 6.7% of Brazilian imports. Of this total, 44% originated in Asia, 23.8% in the Laia countries and 21% in the EU. If we look at countries individually, purchases from China accounted for 20.7% of the total amount in this category, followed by those originating in Argentina, with 16.2%; Germany, 9.1%; and the USA, 8.9%. Imports of consumer durables from Argentina and Mexico were concentrated under passenger cars and accounted for 89.1% and 87.3%, respectively, of purchases in this category, posting annual increases of more than 100% and 1000%. This performance was reflected in 116% growth in the volume of automobiles imported compared to 2005, as participation in purchases under this category reached 31.5%.

Graph 5.9

Brazilian imports by end use category – FOB

Last 12 months (% change)[1/]



Source: MDIC/Secex

1/ From the same period of the previous year.

Average daily imports of nondurable consumer goods closed 2006 at US$23.8 million, up 31% in annual terms. This result represented 6.5% of the increase in external purchases by Brazil. Participation of imports of pharmaceutical products moved to 36.7% of the total of this category, followed by food products, apparel and other textile goods, beauty products, beverages and tobacco. Moving in a direction opposite that of consumer durables, growth in the imported value of nondurables reflected, above all else, increases in price indices, following the example of increases registered under pharmaceutical, food and beauty products.

Imports of nondurable consumer goods from the EU and particularly Germany and France expanded 27.7% in 2006, representing 27.3% of purchases in this category. The Laia member countries provided 24.3% of the imports of these products, for annual growth of 22.7%. In this case, particular mention should be made of products purchased in Argentina, accounting for 15.8% of the category's total. The participation of Asian countries closed at 20.2%, demonstrating growth in Chinese sales which represented more than half of the value of nondurable consumer goods imported from that region in 2006.

Trade exchanges

In 2006, the trade flow totaled US$228.9 billion, setting a new historical record of US$919 million in terms of daily averages. This result reflected growth of 20.2% over the previous year, with significant expansion in trade exchanges with the majority of the nation's trading partners, particularly China, with 35.5%, and the Laia member countries, with 29.8%. The trade balance with the majority of blocs and regions was favorable to Brazil in 2006, with the exception of Asia. The result in that case reflected bilateral trade with China, which reversed the average daily surplus of US$7 million registered in 2005 to a deficit of US$8 million.

The largest trade flows occurred in operations with the member countries of the EU, with a daily average of US$203 million and annual growth of 14%. Daily average exports and imports reached US$122 million and US$81 million, respectively, up 15.6% and 11.8% compared to 2005. The trade flow with Germany, the country's major trading partner in the EU, reached a daily average flow of US$49 million, as Brazilian imports totaled US$26 million and exports closed at US$23 million, for respective annual growth rates of 13.9% and 6.7%. The trade flow with the Netherlands totaled US$26 million per day, as Brazilian exports closed at approximately US$23 million, while the trade flow with France posted a balanced position with a daily average of US$22 million. Emphasis should be given to 36.6% expansion in average daily trade exchanges with Belgium-Luxembourg, rising to a level of US$16 million, with 38.3% growth in exports and 32.2% in imports.

The trade flow with the Laia countries reached US$192 million per day, with growth of 29.8% compared to 2005. Exports added up to US$126 million and imports closed at US$66 million, for respective growth results of 24.4% and

41.7%. Average daily trade exchanges with Argentina expanded 23.4% and totaled US$79 million. Brazilian exports reached a daily average of US$47 million and imports closed at US$32 million, with annual growth of 19.1% and 30.1%, respectively, reflecting stability in the Brazilian trade surplus in the year.

The daily trade flow with Chile was equivalent to US$27 million, with growth of 67.9% in imports, totaling US$12 million, and 8.7% in exports, with US$16 million. Bilateral trade with Mexico registered increases of 56.5% in daily average Brazilian imports and 10.2% in exports, with final totals of US$5 million and US$18 million, respectively. It should be stressed that the Laia countries continued as the major markets of destination for Brazilian manufactured goods and consolidated Brazil's position in the region as an important supplier of more dynamic international market products, with greater technological content.

The trade flow with Asia expanded 24.3% in 2006, as a result of increases of 13% in exports and 36.8% in imports, with totals of US$84 million and US$92 million, respectively. China was Brazil's major trading partner in that region with an average daily flow of US$66 million, marked by growth of 50.4% in imports of Chinese products, US$32 million, and 23.9% under Brazilian exports, with US$34 million. Bilateral trade with Japan remained in a balanced position, as exports reached US$16 million per day and imports closed at US$15 million per day. Parallel to these results, trade with South Korea expanded 21% compared to 2005, generated by increases of 34.6% in average daily imports and 4.3% in exports, with respective totals of US$12 million and US$8 million.

In 2006, the United States remained as Brazil's major trading partner. The trade flow with that country reached a daily average of US$159 million, with increases of 9.4% in exports and 16.5% in imports, closing at respective totals of US$99 million and US$60 million. The trade surplus favorable to Brazil remained at the same level as in 2005.

Trade transactions with the countries of Eastern Europe resulted in an average daily surplus of US$12 million, reflecting exports of approximately US$18 million and imports of US$6 million, with annual growth rates of 17.4% and 29.5%, respectively. Exports to Russia accounted for 76.6% of the total exported to Eastern Europe and imports from that country were responsible for 62.5% of Brazilian purchases in that region.

Table 5.15 – Brazilian trade by region – FOB

Daily average – US$ million

Itemization	2005			2006		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	471	293	178	552	367	185
EFTA[1/]	4	6	-2	6	7	-1
Laia	101	46	55	126	66	60
Mercosur	47	28	19	56	36	20
Argentina	40	25	15	47	32	15
Paraguay	4	1	3	5	1	4
Uruguay	3	2	1	4	2	2
Chile	14	7	7	16	12	4
Mexico	16	3	13	18	5	13
Others	24	8	16	37	13	24
Canada	8	4	4	9	5	4
European Union	106	72	33	122	81	41
Germany	20	24	-4	23	26	-3
Belgium/Luxembourg	9	3	6	12	4	8
Spain	9	5	3	9	6	4
France	10	11	-1	11	11	-1
Italy	13	9	4	15	10	5
Netherlands	21	2	19	23	3	20
United Kingdom	10	5	5	11	6	6
Others	14	12	2	17	14	3
Eastern Europe	15	5	11	18	6	12
Asia[2/]	74	67	7	84	92	-8
Japan	14	14	0	16	15	0
China	27	21	6	34	32	2
Korea, Republic of	8	9	-2	8	12	-5
Others	25	23	2	26	32	-6
USA[3/]	91	51	39	99	60	39
Others	73	41	31	89	51	37
Memo:						
Nafta	115	59	56	126	70	56
Opec	30	33	-3	42	40	2

Source: MDIC/Secex

1/ Iceland, Liechtenstein, Norway and Switzerland.

2/ Excludes the Middle East.

3/ Includes Puerto Rico.

Services

The service account registered net expenditures of US$9.4 billion in 2006, against US$8.3 billion in the previous year, with increases of 21.1% under revenues and 18.4% under expenditures. The performance of expenditures was, to some extent, a consequence of the results registered by international travel, transportation and equipment rentals. It should be stressed that the only deficits that did not expand in 2006 were those of the insurance, financial services and government services accounts.

The international travel account deficit, which has been steadily increasing, rose 68.7% in 2006 to a level of US$1.4 billion, with growth under both revenues and expenditures.

Rising constantly since May 2002, revenues under the heading of international travel, generated by nonresidents traveling in Brazil, increased 11.8% in the year, closing with a record volume of US$4.3 billion in 2005. Spending under this heading has been increasing steadily and at an accentuated pace since August 2003, closing 2006 at US$5.8 billion, up 22.1% in annual terms. The international travel result, together with growth in remittances at a pace higher than inflows, is compatible with the scenario of rising domestic income and nominal exchange rate appreciation.

Spending on international travel in 2006 was generated basically by 22.9% growth in outlays by residents traveling abroad, with a total amount of US$5.3 billion against US$4.3 billion in 2005. Outlays by foreign tourists visiting the country expanded 11.9%, resulting in net spending of US$1.1 billion under the heading of tourism, compared to US$560 million in 2005. Negative results became more accentuated in the second half of the year, when the deficit under this account closed with a cumulative total of US$812 million, compared to US$290 million in the first half of the year. Net outflows through credit card operations, the major heading under this item, added up to US$958 million. Net revenues of free shops totaled US$229 million. Other spending on tourism registered a deficit of US$149 million, against US$319 million in 2005. Business travel, which is less sensitive to exchange rate variations and tends to reflect the level of domestic and world economic activity, expanded 12.2%, registering a deficit of US$239 million, against US$213 million in 2005.

In 2006, the transportation account deficit reached US$2.9 billion, for annual growth of 47.7%. This performance was consistent with foreign trade and international travel results. The performance of the balance of trade in goods resulted in 32% growth under net outlays on freights in 2006, clearly reflecting the impact of annual growth in imports. Revenues and expenditures on maritime freights were almost totally composed of shipments of goods, posting respective growth rates of 13.2% and 21%.

One factor that contributed to the rise in the transportation deficit was the international flow of travelers, registering growth of 68.2% in net spending on travel tickets, with a total of US$1.5 billion. Revenues declined 34.8% to a level of US$261 million, while spending expanded 36.2% to a level of US$1.7 billion. This behavior was impacted by the reduction in the operating network of the Varig company, a Brazilian commercial airline and holder of important international routes. This reduction generated a sharp downturn in revenues on travel tickets

Table 5.16 – Services

US$ million

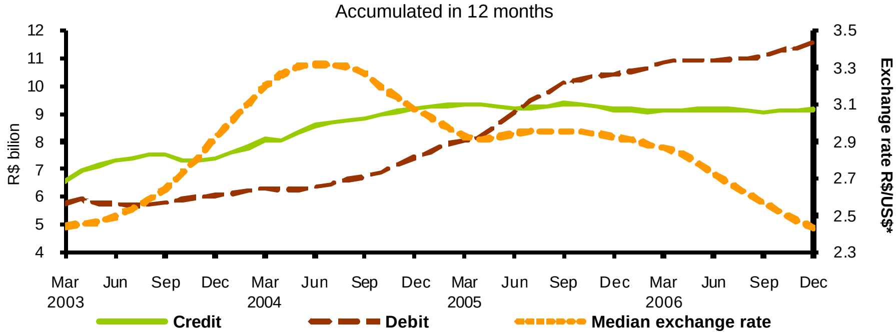
Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-3 556	-4 753	-8 309	-4 066	-5 343	-9 408
Credit	7 513	8 535	16 047	9 134	10 304	19 438
Debit	11 069	13 287	24 356	13 199	15 647	28 847
Transportation	-776	-1 174	-1 950	-1 248	-1 632	-2 881
Credit	1 495	1 643	3 139	1 600	1 814	3 415
Debit	2 272	2 817	5 089	2 849	3 446	6 295
Travel	-220	-639	-858	-469	-979	-1 448
Credit	1 868	1 993	3 861	2 195	2 121	4 316
Debit	2 088	2 632	4 720	2 664	3 099	5 764
Insurance	-283	-285	-568	-198	-233	-430
Credit	33	101	134	100	225	324
Debit	316	385	702	297	458	755
Financial services	-58	-171	-230	-4	-119	-123
Credit	248	259	507	327	411	738
Debit	307	430	737	331	530	861
Computer and information	-813	-813	-1 626	-989	-915	-1 903
Credit	35	53	88	43	58	102
Debit	847	866	1 713	1 032	973	2 005
Royalties and licence fees	-602	-701	-1 303	-700	-813	-1 513
Credit	54	48	102	65	85	150
Debit	655	749	1 404	765	898	1 664
Operational leasing	-1 974	-2 156	-4 130	-2 352	-2 535	-4 887
Credit	34	44	78	31	46	77
Debit	2 007	2 201	4 208	2 383	2 580	4 964
Government services	-247	-509	-755	-93	-357	-450
Credit	542	650	1 192	733	784	1 517
Debit	788	1 159	1 947	826	1 141	1 967
Other	1 416	1 695	3 111	1 988	2 239	4 227
Credit	3 204	3 743	6 947	4 039	4 761	8 800
Debit	1 788	2 047	3 836	2 051	2 522	4 573

Table 5.17 – International travel

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Tourism	-72	-488	-560	-290	-812	-1 103
Credit	1 831	1 938	3 769	2 150	2 068	4 217
Debit	1 903	2 426	4 329	2 440	2 880	5 320
Duty-free shop (net)	89	111	200	120	109	229
Credit card	-3	-291	-295	-356	-602	-958
Credit	1 043	1 058	2 101	1 109	1 061	2 170
Debit	1 046	1 350	2 396	1 466	1 663	3 128
Tourism services	-41	-106	-147	-97	-128	-225
Credit	122	121	243	148	147	295
Debit	163	226	390	245	275	520
Other	-117	-202	-319	43	-192	-149
Credit	566	632	1 198	757	741	1 498
Debit	684	833	1 517	714	933	1 646
Business	-100	-113	-213	-126	-112	-239
Credit	17	23	40	20	23	43
Debit	117	136	253	147	136	282
Education-related	-45	-41	-85	-45	-57	-102
Credit	3	4	7	4	5	9
Debit	48	44	93	49	62	111
Government employees	-6	-4	-10	-15	-2	-17
Credit	11	17	28	8	12	20
Debit	16	22	38	23	14	37
Health-related	4	6	10	8	5	13
Credit	7	11	18	14	12	26
Debit	3	4	8	6	7	13
Total	-220	-639	-858	-469	-979	-1 448
Credit	1 868	1 993	3 861	2 195	2 121	4 316
Debit	2 088	2 632	4 720	2 664	3 099	5 764

Graph 5.10
Tourism
Accumulated in 12 months



Average monthly rate*

and increased expenditures. Other items under the heading of transportation, including charters and airport services, represented net expenditures of US$262 million, up 26.6% in annual terms.

The heading of equipment rentals accounted for the largest contribution to the service account deficit and registered net remittances of US$4.9 billion, compared to US$4.1 billion in 2005. The increase in these remittances was to some extent a consequence of the already mentioned process of increased domestic utilization of capital goods belonging to nonresidents, with positive impacts on the productive capacity of the economy. Revenues remained stable, registering final amounts that were not particularly expressive.

Insurance services registered net outflows of US$430 million, against US$568 million in 2005. This reduction reflected 142% growth in revenues, which totaled US$324 million, a performance that was clearly impacted by expansion in direct insurance operations – excluding freight and life insurance – carried out in the second half of the year. Spending totaled US$755 million, 7.5% more than outlays in 2005.

Net spending on financial services showed US$123 million, against US$230 million in the previous year. This result indicated expansion of 45.5% in revenues to a level of US$738 million and 16.8% in spending, rising to US$861 million.

Net outlays on computer and information services reached US$1.9 billion, against US$1.6 billion in 2005. Revenues totaled US$102 million and expenditures came to US$2 billion.

Net payments abroad of royalties and licenses, including franchises, copyrights, trademarks licenses and the working of patents, technology supplies and other items, totaled US$1.5 billion in 2006. The annual increase of 16.2% was generated by 18.5% growth in remittances and 47.9% in the still almost negligible revenues received.

Government services registered net spending of US$450 million in 2006, against US$755 million in the previous year. These figures reflected 27.3% growth in foreign government outlays in Brazil, totaling US$1.5 billion, coupled with stability in spending of the Brazilian government abroad, with US$2 billion.

The item of other services registered net revenues of US$4.2 billion, with annual growth of 35.9%. In this grouping, administrative services and specialized technical services registered equal volumes of net revenues with US$1.6 billion, for annual growth rates of 5.3% and 2.6%, respectively.

Table 5.18 – Transportation

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-776	-1 174	-1 950	-1 248	-1 632	-2 881
Credit	1 495	1 643	3 139	1 600	1 814	3 415
Debit	2 272	2 817	5 089	2 849	3 446	6 295
Sea transportation	-259	-433	-693	-465	-575	-1 040
Credit	1 182	1 419	2 601	1 362	1 512	2 874
Debit	1 442	1 852	3 294	1 827	2 087	3 914
Passenger	-7	-0	-8	-1	-1	-1
Credit	0	0	0	0	0	0
Debit	7	0	8	1	1	1
Freight	-385	-453	-838	-465	-617	-1 082
Credit	411	450	861	460	515	974
Debit	796	903	1 699	925	1 131	2 056
Others	133	20	153	0	42	43
Credit	771	969	1 740	902	997	1 899
Debit	638	949	1 587	902	955	1 857
Air transportation	-516	-745	-1 261	-790	-1 054	-1 844
Credit	272	171	444	181	244	425
Debit	788	916	1 705	971	1 298	2 269
Passenger	-338	-534	-871	-631	-845	-1 476
Credit	207	100	306	99	161	260
Debit	544	633	1 178	730	1 006	1 736
Freight	-2	-17	-19	-13	-41	-54
Credit	46	44	90	41	36	76
Debit	48	61	109	54	76	130
Others	-176	-195	-371	-145	-169	-314
Credit	19	28	47	42	47	89
Debit	196	223	418	187	216	403
Other transportation[1/]	-1	4	3	6	-3	4
Credit	41	53	94	57	58	115
Debit	42	49	91	51	61	112
Passenger	1	0	1	1	0	1
Credit	1	0	1	1	0	1
Debit	0	0	0	0	0	0
Freight	-8	-1	-8	1	-7	-7
Credit	34	47	81	51	53	104
Debit	41	48	90	50	61	111
Others	6	5	11	5	4	10
Credit	6	6	12	6	5	10
Debit	1	1	1	0	0	1

1/ Includes road transportation.

Table 5.19 – Other services

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 416	1 695	3 111	1 988	2 239	4 227
Credit	3 204	3 743	6 947	4 039	4 761	8 800
Debit	1 788	2 048	3 836	2 051	2 522	4 573
Communication	72	55	127	68	36	104
Credit	138	102	239	109	96	205
Debit	65	47	112	41	60	102
Construction	3	5	8	14	5	18
Credit	3	5	8	14	8	23
Debit	0	0	0	1	4	4
Merchanting and trade-related	-144	-135	-279	-28	28	1
Credit	242	364	606	409	558	967
Debit	386	499	885	437	530	967
Personal, cultural and recreational	-196	-199	-396	-247	-205	-452
Credit	20	36	56	31	50	81
Debit	216	235	451	278	255	533
Misc. business, prof.and technical	1 681	1 969	3 651	2 181	2 375	4 556
Credit	2 801	3 236	6 038	3 476	4 048	7 524
Technical services	1 633	1 647	3 280	1 655	1 841	3 496
Other	1 168	1 590	2 758	1 820	2 207	4 028
Debit	1 120	1 267	2 387	1 294	1 673	2 967
Technical services	831	876	1 707	804	1 077	1 881
Other	289	391	681	490	596	1 086

Income

In 2006, growth in the income account was conditioned by two innovative aspects compared to previous years. In the first place, net remittances of income abroad reflected net outflows related to direct investments, something that had not occurred since 1994. In the period extending from 1995 to 2005, the greatest contribution to net spending under this account originated in portfolio investment flows. The other change referred to the level of net remittances of profits and dividends, which surpassed interest remittances. This fact reflected the predominance of foreign direct investments and foreign portfolio investments in the country in relation to outstanding external debt in the profile of the nation's external liabilities.

The income account deficit expanded 5.7% in 2006, with a total of US$27.4 billion. When one considers the components of this account, profits and dividends accounted for net remittances of US$16.4 billion, against US$12.7 billion in 2005. Basically, this performance was a consequence of progressive increases in the volume of external investment in Brazil, increased profitability of corporations located in the country and continued appreciation of the real. Although the annual comparison shows expansion, growth at the margin has indicated stability since June 2006.

After registering an annual average of US$13.6 billion in the period extending from 1998 to 2005, net interest remittances totaled US$11.3 billion in 2006, the

Table 5.20 – Income

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-12 528	-13 440	-25 967	-14 563	-12 881	-27 444
Credit	1 609	1 586	3 194	3 644	2 839	6 483
Debit	14 136	15 025	29 162	18 208	15 720	33 927
Compensation of employees	132	82	214	95	82	177
Credit	162	164	325	192	205	397
Debit	30	82	111	97	123	220
Investment income	-12 660	-13 522	-26 181	-14 658	-12 963	-27 621
Credit	1 447	1 422	2 869	3 453	2 634	6 086
Debit	14 107	14 944	29 050	18 111	15 596	33 707
Direct investment income	-4 184	-6 118	-10 302	-6 100	-6 711	-12 811
Credit	404	329	733	885	188	1 073
Debit	4 588	6 447	11 035	6 985	6 899	13 884
Profits and dividends	-3 765	-5 376	-9 142	-5 425	-6 006	-11 431
Credit	346	295	641	795	133	928
Debit	4 111	5 671	9 783	6 220	6 138	12 359
Interests on intercompany loans	-419	-742	-1 161	-675	-705	-1 380
Credit	58	34	92	89	55	145
Debit	477	776	1 253	765	761	1 525
Portfolio investment income	-6 359	-5 419	-11 778	-6 804	-4 202	-11 006
Credit	436	349	785	1 666	1 429	3 095
Debit	6 795	5 768	12 563	8 469	5 631	14 101
Income on equity (dividends)	-2 352	-1 192	-3 544	-3 425	-1 499	-4 924
Credit	5	6	10	16	5	21
Debit	2 357	1 198	3 554	3 441	1 504	4 945
Income on debt securities (interests)	-4 007	-4 227	-8 234	-3 379	-2 703	-6 083
Credit	431	343	775	1 649	1 424	3 073
Debit	4 438	4 571	9 009	5 029	4 128	9 156
Other investments income[1/]	-2 117	-1 984	-4 101	-1 754	-2 050	-3 804
Credit	607	744	1 351	902	1 016	1 919
Debit	2 723	2 728	5 452	2 656	3 066	5 723
Memo:						
Interest	-6 543	-6 953	-13 496	-5 809	-5 458	-11 267
Credit	1 096	1 122	2 218	2 641	2 496	5 137
Debit	7 639	8 075	15 713	8 450	7 954	16 404
Profits and dividends	-6 117	-6 569	-12 686	-8 850	-7 505	-16 354
Credit	351	301	651	812	138	949
Debit	6 468	6 869	13 337	9 661	7 642	17 303

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

lowest level since 1997. The annual reduction of US$2.2 billion reflected growth of 131.6% in revenues and 4.4% in spending. Strong growth in interest revenues to a level more than US$2.9 billion above the 2005 result was generated by growth in Brazilian assets abroad, particularly the nation's international reserves. In a complementary manner, interest revenues on securities offered as guaranties of Brady bond debt service were also appropriated, once the securities had been released following their full amortization. Interest outlays expanded slightly, reflecting growth in international interest rates, expansion in capital inflows and the policy of repurchasing bonds of the Republic. In this case, anticipated payment of interest initially exerts pressure on spending but later results in reductions in interest outlays.

Net inflows of wages and salaries totaled US$177 million, for an annual reduction of 17.2%. Increases of 22.1% were registered in earnings paid to workers domiciled in the country, reaching a level of US$397 million, coupled with 97.5% growth in payments to nonresidents, totaling US$220 million.

A breakdown of these figures shows that net remittances of income on direct investments totaled US$12.8 billion, for annual growth of 24.3%, reflecting growth in the stock of foreign direct investments. In this account, net outlays on profits and dividends reached US$11.4 billion, against US$9.1 billion in 2005, generated by 44.8% growth in revenues and 26.3% in spending. Companies from the industrial sector accounted for 51.7% of gross remittances, while service sector companies were responsible for 45.9%. Analysis shows low level concentration of gross remittances according to economic activity, with the sector of financial intermediation accounting for 12.2%, followed by electricity, gas and hot water, with 11.9%, and manufacturing and assembly of automotive vehicles, with 11.4%.

Net remittances of interest on intercompany loans expanded 18.9%, registering US$1.4 billion, while remittances related to portfolio investments dropped 6.6% in 2006, closing with a total of US$11 billion. Net spending on interest on fixed income securities, which are particularly important to the result of this heading, showed a decline of 26.1% to a level of US$6.1 billion, reflecting an accentuated increase in revenues from US$775 million to a level of US$3.1 billion, due in part to increasingly larger earnings on the share of international reserves invested in securities.

Net remittances of profits and dividends on resources in portfolio investments expanded 38.9% in 2006, reaching a total of US$4.9 billion. Distribution of profits and dividends on shares of Brazilian companies negotiated abroad was particularly strong, especially in the case of companies in which export revenues have relatively greater weight in overall revenues.

Income on other investments, including interest on suppliers' credits, loans, deposits and other assets and liabilities, totaled net remittances of US$3.8 billion, for growth of 42% in the year. To some extent, this result was a consequence of earnings on international reserves, while expenditures expanded 5% to a level of US$5.7 billion.

Current unilateral transfers

The trend toward uninterrupted growth in net unilateral transfers continued through 2006, when these operations expanded 21% compared to 2005. Net cumulative inflows totaled US$4.3 billion, against US$3.6 billion in the previous year, thus confirming the upward trajectory initiated in May 2005.

In 2006, gross remittances for purposes of support of residents in the country expanded 16.5% compared to the previous year, totaling US$2.9 billion and representing 59.6% of total inflows of current unilateral transfers. The major countries of origin of these inflows were the United States, with 49%, and Japan, with 22.5%.

Financial account

Evolution of current accounts and the scenario of economic stability further strengthened the nation's position as a major attraction for international investors. Evidently, this has had highly positive repercussions in terms of acceptance of international placements of bonds and reductions in interest rate differentials. In an environment of improvement in the liability profile, debt issuances in national currency have also benefited. The performance of the export sector, coupled with consistent fiscal and monetary policies, have greatly aided in consolidating international investor confidence, driving the trend toward increased accumulation of international reserves. On reducing exposure to external factors, the adjustment in balance of payments current accounts has made it possible to administer the financial account with considerable ease.

The existent high level of liquidity on the international financial market continued through 2006 and provided Brazil with external credits in favorable conditions. Net inflows of external resources were far greater than in the two previous years. Rollover of the medium and long-term private sector external debt, the rate of which reflects new disbursements in relation to amortizations that have occurred, was more than double the amount in 2005, as the percentages of rollover of bonds and medium and long-term external loans closed in the range of 206%.

Table 5.21 – Current unrequited transfers

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 683	1 874	3 558	2 036	2 270	4 306
Credit	1 893	2 157	4 051	2 279	2 568	4 847
Debit	210	283	493	243	298	541
General government transfers	-3	-55	-59	-3	-32	-35
Credit	34	47	81	40	46	86
Debit	38	102	140	43	78	122
Other sectors transfers	1 687	1 930	3 616	2 040	2 302	4 342
Credit	1 859	2 110	3 969	2 239	2 522	4 761
Debit	172	181	353	200	220	419
Workers' remittances	1 060	1 158	2 217	1 259	1 321	2 581
Credit	1 180	1 300	2 480	1 402	1 488	2 890
United States	631	717	1 349	698	716	1 415
Japan	304	276	581	324	325	649
Remaining countries	244	306	551	1 402	1 488	551
Debit	121	142	263	143	167	309
Other transfers	627	772	1 399	780	981	1 761
Credit	679	811	1 490	837	1 034	1 871
Debit	52	39	91	57	53	110

Significant alterations have been introduced into the financial account, including important efforts to constitute and expand external assets. This factor explains the process of expanding the presence of Brazilian companies in foreign markets. The institutions involved have expanded their scale and begun participating in a significant way in the world market, with significant alterations in the levels of the Brazilian investment account abroad. This change was demonstrated by growth in the stock of direct investments abroad, totaling US$87 billion, according to the latest available figures for September 2006. One observes that this amount does not include higher impact operations that occurred in the fourth quarter of the year, including a major operation involving a Brazilian mining sector corporation.

The balance of payments financial account showed net inflows of US$16.4 billion and reversed the 2005 deficit of US$10.1 billion, which included payment of US$23.3 billion to the IMF. In the year, despite the fact that direct investments registered net outflows of US$8.5 billion, portfolio investments and other investments generated net inflows worth US$8.6 billion and US$15.9 billion, respectively.

For the third consecutive year, global flows of Foreign Direct Investment (FDI) continued recovering. Preliminary estimates released by the United Nations Conference on Trade and Development (UNCTAD) for 2006 indicate a 34% rise

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

US$ million

Period		Balance of current transactions			Foreign direct investments			External financing requirements		
		Value		% GDP	Value		% GDP	Value		% GDP
		Monthly	Last 12 months	Last 12 months	Monthly	Last 12 months	Last 12 months	Monthly	Last 12 months	Last 12 months
2001	Dez	-1 787	-23 215	-4.19	3 659	22 457	4.06	-1 872	757	0.14
2002	Dez	- 84	-7 637	-1.51	1 503	16 590	3.29	-1 419	-8 954	-1.78
2003	Dez	343	4 177	0.75	1 409	10 144	1.83	-1 752	-14 321	-2.59
2004	Dez	1 207	11 738	1.76	3 150	18 166	2.73	-4 357	-29 903	-4.49
2005	Jan	797	11 791	1.73	1 203	18 329	2.69	-2 000	-30 121	-4.42
	Fev	131	11 723	1.68	844	18 158	2.60	- 975	-29 881	-4.28
	Mar	1 729	12 699	1.77	1 395	18 854	2.63	-3 124	-31 553	-4.41
	Abr	715	14 171	1.93	3 037	21 514	2.93	-3 753	-35 685	-4.86
	Mai	593	13 284	1.77	709	22 016	2.93	-1 302	-35 300	-4.69
	Jun	1 284	12 550	1.63	1 325	22 617	2.93	-2 609	-35 166	-4.56
	Jul	2 540	13 290	1.68	2 029	23 060	2.92	-4 569	-36 351	-4.61
	Ago	771	12 314	1.52	1 090	18 061	2.23	-1 861	-30 375	-3.76
	Set	2 359	12 927	1.56	31	17 446	2.11	-2 390	-30 373	-3.67
	Out	845	12 741	1.51	823	16 957	2.01	-1 668	-29 698	-3.52
	Nov	1 691	14 657	1.70	1 172	16 810	1.95	-2 863	-31 467	-3.64
	Dez	530	13 985	1.58	1 406	15 066	1.71	-1 936	-29 051	-3.29
2006	Jan	- 308	12 880	1.44	1 474	15 337	1.71	-1 167	-28 218	-3.15
	Fev	647	13 396	1.47	854	15 347	1.68	-1 501	-28 743	-3.16
	Mar	1 278	12 945	1.40	1 629	15 581	1.68	-2 907	-28 526	-3.08
	Abr	117	12 347	1.31	790	13 334	1.42	- 908	-25 681	-2.73
	Mai	441	12 195	1.28	1 577	14 203	1.49	-2 018	-26 398	-2.76
	Jun	618	11 529	1.19	1 060	13 938	1.44	-1 678	-25 467	-2.63
	Jul	3 030	12 019	1.22	1 586	13 494	1.37	-4 616	-25 513	-2.59
	Ago	2 171	13 418	1.34	1 182	13 587	1.36	-3 353	-27 005	-2.70
	Set	2 279	13 339	1.31	1 752	15 307	1.50	-4 031	-28 646	-2.82
	Out	1 500	13 993	1.35	1 722	16 206	1.57	-3 222	-30 199	-2.92
	Nov	1 367	13 670	1.30	2 667	17 701	1.68	-4 035	-31 371	-2.98
	Dez	388	13 528	1.27	2 487	18 782	1.76	-2 875	-32 310	-3.03

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

in global flows to a level of US$1.2 trillion, slightly less than the record total of US$1.4 trillion in 2000. Growth in the flow of foreign direct investment to developed countries reached 47.7%, coupled with 10% inflows to the developing nations. Clearly these figures reflect the unequal distribution of these flows, as well as their concentration in just a few markets of destination. In this sense, while flows to the countries of Latin America and the Caribbean declined 4.5%, those targeted to Asia and Africa expanded 15% and 26.5%, respectively,

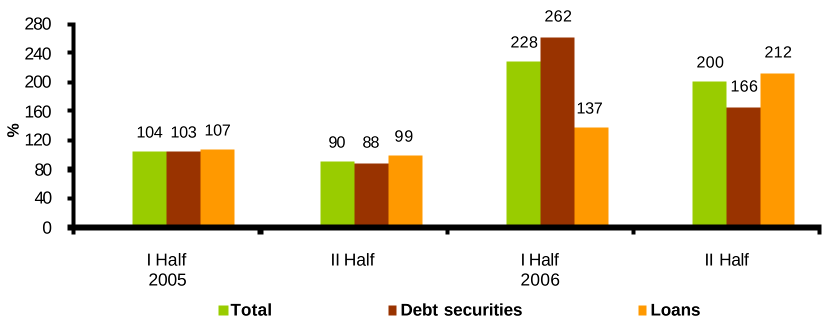
Table 5.23 – Private sector rollover rate[1/]

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total (a/b)	104%	90%	96%	228%	200%	206%
Credit (a)	3 928	5 059	8 988	6 174	20 920	27 094
Debit	3 944	6 997	10 941	3 404	10 479	13 883
Paid (b)	3 770	5 632	9 403	2 709	10 467	13 176
FDI conversions	174	1 364	1 538	695	12	707
Bonds, notes and commercial papers (a/b	103%	88%	94%	262%	166%	206%
Credit (a)	3 020	4 016	7 037	5 154	4 504	9 658
Debit	3 093	5 919	9 012	2 646	2 723	5 369
Paid (b)	2 921	4 575	7 496	1 964	2 718	4 681
FDI conversions	172	1 344	1 516	683	5	688
Direct loans (a/b)	107%	99%	102%	137%	212%	205%
Credit (a)	908	1 043	1 951	1 020	16 416	17 436
Debit	851	1 078	1 929	757	7 756	8 514
Paid (b)	849	1 057	1 906	745	7 750	8 495
FDI conversions	2	20	23	12	7	19

Graph 5.11

Private sector rollover rate



Note: excludes debt-equity swap

benefiting countries that produce raw materials and have industries capable of processing them.

Despite the reduction in flows to Latin America, flows of foreign direct investments to Brazil closed with a net total of US$18.8 billion, for annual growth of 24.7%. Of this total, participation in the capital of companies located in the country added up to US$15.4 billion, of which US$2.2 billion involved external debt/investment conversion operations. It is important to stress that a breakdown of these conversions shows that US$803 million originated in amortizations of

Table 5.24 – Foreign direct investments

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	8 514	6 552	15 066	7 385	11 397	18 782
Credit	12 142	17 920	30 062	14 141	18 156	32 297
Debit	3 628	11 368	14 996	6 756	6 759	13 514
Equity capital	6 050	8 995	15 045	5 376	9 998	15 373
Credit	7 936	14 107	22 043	9 548	13 159	22 706
Currency	7 352	9 054	16 406	7 984	12 479	20 463
Autonomous	7 352	9 054	16 406	7 984	12 248	20 233
Privatization	0	0	0	0	230	230
Conversions	560	5 043	5 603	1 559	675	2 234
Autonomous	560	5 043	5 603	1 559	675	2 234
Privatization	0	0	0	0	0	0
Merchandise	24	11	35	4	5	9
Debit	1 886	5 112	6 998	4 172	3 161	7 333
Intercompany loans	2 464	-2 442	21	2 010	1 399	3 409
Credit	4 205	3 813	8 018	4 593	4 997	9 590
Debit	1 742	6 255	7 997	2 584	3 598	6 181
Of which conversions	193	3 285	3 478	349	454	803
Memo:						
Net conversions contribuion fo FDI	367	1 758	2 125	1 210	221	1 431
Total disbursements through conversions	560	5 043	5 603	1 559	675	2 234
Amortization of intercompany loans conversions	193	3 285	3 478	349	454	803

intercompany loans, already included in total foreign direct investments. In this way, the net contribution of conversions into investments came to US$1.4 billion. Intercompany loans registered net inflows of US$3.4 billion, against US$21 million in 2005.

As regards foreign direct investments originating in the USA, the major direct investor in the country, the total amount in 2006 came to US$4.4 billion, with participation of 19.9% of the total. Flows originating in the Netherlands totaled US$3.5 billion; followed by the Cayman Islands, US$2 billion; Switzerland, US$1.6 billion; Spain, US$1.5 billion; and Canada, with US$1.3 billion. In 2006, all other countries invested amounts of less than US$1 billion in Brazil.

The service sector continued receiving the largest volume of foreign direct investment, absorbing 54.5% of the total amount targeted to the country in the year. On the one hand, this result reflected increases in the segments of financial intermediation, postal and telecommunications services, real estate activities and commerce and, on the other, reductions in resources targeted to services rendered to companies, electricity, gas and water, and insurance. Foreign direct investments targeted to the industrial sector expanded 31.2% in 2006 and closed with a total of US$8.6 billion, concentrated mainly in the segments of basic

Table 5.25 – FDI – Equity capital - Gross Inflows

Distribution by country

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	7 744	13 894	21 638	9 326	12 899	22 225
United States	1 939	2 705	4 644	2 301	2 132	4 433
Netherlands	1 595	1 613	3 208	1 060	2 435	3 495
Cayman Islands	236	842	1 078	1 278	697	1 974
Switzerland	202	140	342	376	1 255	1 631
Spain	488	732	1 220	696	817	1 514
Canada	460	975	1 435	803	483	1 285
Germany	231	1 157	1 388	189	659	848
Mexico	36	1 625	1 661	6	775	782
Luxembourg	68	71	139	595	150	745
France	401	1 057	1 458	333	412	745
Japan	165	615	779	228	419	648
Bermudas	12	27	39	226	289	515
United Kingdom	65	88	153	75	320	395
Norway	16	27	43	67	272	339
Portugal	53	282	335	206	94	300
British Virgin Islands	111	143	255	127	153	280
Belgium	651	35	686	4	268	272
Colombia	0	1	1	1	231	232
Uruguay	66	101	167	140	90	229
Costa Rica	0	1	1	0	212	212
Italy	138	208	346	127	74	201
Panama	77	88	166	48	91	139
Argentina	37	75	112	39	86	125
Australia	78	848	926	22	95	117
South Korea	67	101	168	42	63	105
Hong Kong	10	7	17	82	19	101
Other countries	540	330	870	257	307	564

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

metallurgy, paper and pulp, chemical products and textiles. Flows targeted to the crop/livestock sector and mineral extraction industry dropped 29.9% to a level of US$1.5 billion, particularly in the activities of mining of metallic minerals and oil extraction, with respective reductions of US$603 million and US$163 million.

Net inflows of foreign portfolio investments totaled US$9.1 billion in 2006, compared to US$6.7 billion in the previous year, corresponding to increases of 67.3% in inflows and 71.2% under remittances. Net stock investments registered total inflows of US$7.7 billion, compared to US$6.5 billion in 2005, while

Table 5.26 – FDI – Equity capital - gross inflows[1/]

Distribution by sector

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	7 744	13 894	21 638	9 326	12 899	22 225
Crop, livestock and mineral extraction	348	1 846	2 194	666	872	1 538
Petroleum extraction and related services	129	768	897	357	377	734
Metallic mineral extraction	78	917	996	213	179	393
Silviculture, forest management and related services	21	16	36	3	211	214
Crop, livestock and related services	100	110	210	83	93	176
Others	20	35	55	9	12	21
Industry	3 687	2 842	6 529	3 624	4 941	8 565
Basic metallurgy[2/]	165	146	310	904	815	1 719
Pulp, paper and paper products	41	126	167	77	1 542	1 619
Chemical products	459	305	764	453	674	1 127
Foodstuff and beverages	1 642	433	2 075	152	586	738
Textile products	6	121	127	627	30	658
Machinery and equipments	139	115	255	238	191	430
Eletronic devices and communicat. equipments	90	306	396	245	80	325
Manufacturing and assembly of automotive engines[3/]	411	633	1 044	223	65	288
Edition, printing and recording	12	13	26	254	25	279
Coke, oil refining	3	5	8	16	244	260
Plastic and rubber products	314	168	481	157	61	218
Eletrical machines, devices and apparatuses	43	121	164	33	173	206
Nonmetallic mineral products	5	11	17	106	44	150
Tobacco Products	10	9	19	0	114	114
Other transportation equipments	87	122	209	34	74	108
Metal products	37	57	94	52	45	97
Other industries	223	152	375	54	175	229
Services	3 708	9 206	12 915	5 036	7 087	12 123
Mail and telecommunications	152	1 142	1 294	1 045	1 947	2 992
Commerce	244	1 327	1 571	1 144	1 188	2 332
Services rendered to corporations	853	1 982	2 835	769	716	1 485
Financial intermediation	98	199	297	935	469	1 404
Eletricity, gas and hot water	1 051	2 907	3 958	270	945	1 215
Lodging and food	493	419	912	387	680	1 067
Construction[4/]	60	68	128	43	306	350
Computing and related activities[5/]	109	94	203	53	268	321
Real-estate	89	119	207	85	231	317
Insurance and pension funds	128	733	861	116	136	252
Transportation	68	77	144	85	107	192
Water services	3	45	48	54	14	68
Other services	362	94	457	49	79	127

1/ Does not include investments in goods, real-estate and national currency.
2/ Includes siderurgy.
3/ Includes the industry of spare parts for the automotive sector.
4/ Includes infrastructure works related to the energy and telecommunications sectors.
5/ Includes internet.

Table 5.27 – Portfolio investments – Liabilities

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	5 545	1 111	6 655	-1 753	10 804	9 051
Credit	23 690	35 686	59 376	52 209	47 108	99 317
Debit	18 146	34 575	52 721	53 962	36 304	90 266
Equities	2 510	3 941	6 451	4 141	3 575	7 716
Credit	13 685	20 348	34 033	26 886	24 401	51 287
Debit	11 175	16 407	27 582	22 745	20 826	43 571
Issued in the country	2 056	3 365	5 421	2 334	3 525	5 859
Credit	12 945	19 387	32 332	24 600	23 911	48 511
Debit	10 889	16 022	26 911	22 266	20 386	42 652
Issued abroad (Annex V - ADR)	454	576	1 030	1 807	50	1 857
Credit	740	961	1 701	2 286	490	2 776
Debit	286	385	671	480	440	919
Debt securities	3 034	-2 830	204	-5 894	7 229	1 335
Credit	10 005	15 338	25 344	25 323	22 707	48 030
Debit	6 971	18 169	25 139	31 217	15 478	46 695
Issued in the country	263	426	689	6 066	4 976	11 042
Medium and long term	158	255	413	3 941	3 031	6 971
Credit	982	1 469	2 450	10 121	7 655	17 776
Debit	824	1 213	2 037	6 180	4 625	10 805
Short term	105	170	276	2 125	1 945	4 070
Credit	654	979	1 633	5 881	4 519	10 400
Debit	549	809	1 358	3 756	2 574	6 330
Issued abroad	2 771	-3 256	-485	-11 960	2 253	-9 707
Bonds	2 957	-750	2 207	-13 304	81	-13 223
Private	-599	0	-599	0	25	25
Disbursements	0	0	0	0	125	125
Amortizations	599	0	599	0	100	100
Public	3 557	-750	2 806	-13 304	56	-13 248
Disbursements	4 502	7 987	12 490	2 060	3 390	5 450
New issues	4 502	3 479	7 981	1 862	2 890	4 752
Bond swaps	0	4 509	4 509	198	500	698
Amortizations	945	8 738	9 683	15 364	3 334	18 698
Paid	945	4 229	5 174	15 166	2 601	17 767
Bond swaps	0	4 509	4 509	198	733	931
Face value	0	4 509	4 509	148	500	648
Discounts	0	0	0	-50	-233	-283
Notes and commercial papers	-849	-2 278	-3 127	1 743	1 682	3 425
Disbursements	3 020	4 316	7 337	5 454	4 739	10 194
Amortizations	3 870	6 594	10 463	3 712	3 057	6 769
Money market instruments	663	-228	435	-399	490	91
Disbursements	847	587	1 434	1 806	2 278	4 084
Amortizations	184	815	999	2 205	1 788	3 993

foreign investments in fixed income securities registered net disbursements of US$1.3 billion, against US$204 million in the previous period. To some extent, this performance reflected record net inflows of US$11 billion in fixed income securities negotiated in the country, with gross disbursements of US$28.2 billion and amortizations of US$17.1 billion.

Recovering since 2003, net inflows of foreign stock investments registered significant flows in 2006, particularly in the second half of the year. Revenues and spending totaled US$51.3 billion and US$43.6 billion, respectively, with growth of 50.7% and 58% compared to the previous year.

Net inflows into stocks traded in the country added up to US$5.9 billion and accounted for 76% of net inflows of foreign stock investments. Placements of ADR showed net inflows of US$1.9 billion, compared to US$1 billion in 2005.

Foreign investments in fixed income securities registered net outflows in the first half of the year, but closed 2006 with net disbursements of US$1.3 billion. This result is not particularly significant when viewed in terms of the record amounts negotiated during the year, with US$48 billion in inflows and US$46.7 billion in remittances, representing growth of 89.5% and 85.7% compared to 2005. To some extent, this result reflected the impact of Provisional Measure 281, published in the month of February and later converted into Law 11,312, which reduced the income tax on foreign investor gains in fixed income securities in the country.

The sovereign bond market registered net remittances of US$13.2 billion in 2006 as a result of the buyback program, public offers and utilization of anticipated payment clauses, as well as original maturity schedules. From the point of view of new placements, one should highlight issuance and reopening of the Global BRL 22 and issuance of the Global 17. In the first case, the volume issued in the second sovereign bond denominated in real was increased R$1.4 billion, equivalent to US$647 million. If one considers September 2006 issuances and October and December reopenings, Global BRL 22 reached R$3 billion, equivalent to US$1.4 billion. This marked the start of construction of a reference curve for international market operations in real. Issuance of Global 17 reflected an increase of US$1.5 billion in the international reserve position in November, while also aiding in completing the interest reference curve for the country. With maturity of 10 years, the rate of return for investors was equivalent to a spread of 159 basis points, the lowest among all bond operations carried out by the Republic in the post-1994 period, a fact clearly in line with recent decisions taken by risk rating agencies. Standard & Poor’s maintained the Brazilian sovereign external debt rating at two levels from investment grade, but altered its perspective from neutral to positive in the month of November.

Table 5.28 – Other foreign investments

US$ million

Itemization	2005			2006		
	1º sem	2º sem	Ano	1º sem	2º sem	Ano
Total	-7 958	-14 528	-22 486	6 009	13 028	19 036
Trade credit	406	3 179	3 585	7 275	3 169	10 443
Long term	-583	-358	-941	-345	-496	-841
Credit	354	386	740	417	395	812
Debit	937	744	1 681	762	890	1 653
Short term (net)	988	3 538	4 526	7 620	3 665	11 284
Loans	-8 838	-17 915	-26 753	-2 272	9 204	6 932
Monetary authority	-2 909	-20 493	-23 402	-69	-69	-138
Exceptional financing	-2 843	-20 427	-23 271	0	0	0
Loans from the IMF	-2 843	-20 427	-23 271	0	0	0
Credit	0	0	0	0	0	0
Debit	2 843	20 427	23 271	0	0	0
Other long term	-66	-66	-132	-69	-69	-138
Credit	0	0	0	0	0	0
Debit	66	66	132	69	69	138
Remaining sectors	-5 928	2 578	-3 351	-2 203	9 273	7 070
Long term	-2 943	651	-2 291	952	9 460	10 412
Credit	2 734	5 242	7 976	7 345	19 791	27 136
Multilateral1/	638	2 080	2 718	3 608	1 497	5 105
Agencies	413	806	1 219	752	717	1 469
Buyers credit	586	847	1 433	1 001	1 116	2 117
Direct loans	1 098	1 509	2 606	1 985	16 461	18 446
Debit	5 676	4 591	10 267	6 394	10 331	16 725
Multilateral1/	1 394	1 136	2 530	1 049	1 081	2 130
Agencies	1 810	813	2 624	3 131	339	3 470
Buyers credit	1 227	1 216	2 443	1 257	1 056	2 313
Direct loans	1 245	1 426	2 671	957	7 855	8 812
Short term	-2 986	1 926	-1 059	-3 154	-187	-3 342
Currency and deposits	440	127	567	1 002	654	1 656
Outher liabilities	34	81	115	4	1	5
Long term (net)	0	0	0	0	0	0
Short term (net)	34	81	115	4	1	5

1/ Includes IFC.

Net disbursements of notes and commercial papers reached US$3.4 billion, against net amortizations of US$3.1 billion in the previous year. Short-term securities registered net inflows of US$91 million, compared to US$435 million in 2005. Even though the balance was considerably less, inflows increased 185% and outflows 300%.

The segment of other investments registered net inflows of US$15.9 billion, against net outflows of US$27.5 billion in 2005. Other foreign investments in the country posted net disbursements of US$19 billion, against net remittances of US$22.5 billion using the same basis of comparison. It should be noted that a breakdown of this turnaround of US$41.5 billion shows that US$6.9 billion referred to net growth in trade credits and US$33.7 billion to net granting of loans and financing. The 2005 results included amortization of US$23.3 billion in payments to the IMF, effectively eliminating the country's indebtedness to that organization.

Suppliers' trade credits showed disbursements of US$10.4 billion, against US$3.6 billion in 2005. In this account, long-term credits registered net remittances of US$841 million, while short-term credits posted net inflows of US$11.3 billion.

Loans and financing of other sectors of the economy showed net disbursements of US$7.1 billion, compared to net outflows of US$3.4 billion in 2005. Long-term loans totaled net inflows of US$10.4 billion, concentrated in direct loans, US$9.6 billion (including US$14.5 billion in disbursements to finance a direct Brazilian investment operation abroad in the mining sector) and international organizations, US$3 billion. Aside from this, mention should be made of net amortizations with agencies, US$2 billion, and buyers' loans, US$196 million.

Short-term loans showed net amortizations of 3.3 billion, against US$1.1 billion in the previous year. Net inflows of resources from nonresidents maintained in the country in the form of deposits and currency totaled US$1.7 billion, compared to US$567 million in 2005.

Net formation of new Brazilian direct investments abroad in 2006 set a record of US$27.3 billion, against US$2.5 billion in 2005. This result was strongly influenced by an operation in the mining sector in the months of October and November with the result that, for the first time, Brazilian direct investments abroad surpassed inflows of foreign direct investments, both expressed in net values. Of total net remittances, US$22.5 billion referred to growth in capital participation, against US$2.7 billion in 2005. Loans from Brazilian companies to associate companies abroad accounted for net outflows of US$4.8 billion, compared to US$178 million in returns in 2005.

Table 5.29 – Brazilian direct investments abroad

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 782	-735	-2 517	-4 502	-22 749	-27 251
Credit	477	1 037	1 515	501	628	1 129
Debit	2 259	1 773	4 032	5 003	23 377	28 380
Equity capital	-1 847	-847	-2 695	-4 525	-17 937	-22 462
Credit	371	809	1 180	390	613	1 002
Debit	2 218	1 657	3 875	4 915	18 550	23 465
Intercompany loans	66	112	178	23	-4 812	-4 789
Credit	107	228	335	111	15	126
Debit	41	116	157	88	4 827	4 915

Table 5.30 – Brazilian portfolio investments abroad

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 044	-727	-1 771	1 034	-1 463	-429
Credit	1 914	1 245	3 159	3 857	2 167	6 024
Debit	2 957	1 972	4 929	2 823	3 629	6 453
Equity investment	-708	-123	-831	-387	-1 480	-1 867
Credit	16	54	70	160	247	406
Debit	724	177	901	546	1 727	2 273
Brazilian Depositary Receipts (BDR)	0	-4	-4	-291	-323	-614
Credit	0	0	0	3	3	6
Debit	0	4	4	294	326	620
Other equities	-708	-120	-827	-96	-1 156	-1 252
Credit	16	54	70	156	244	400
Debit	724	173	897	252	1 400	1 652
Debt securities	-336	-604	-940	1 421	17	1 438
Credit	1 898	1 191	3 089	3 698	1 920	5 618
Debit	2 233	1 795	4 029	2 277	1 903	4 180

Brazilian portfolio investments abroad totaled net outflows of US$429 million, compared to US$1.8 billion in 2005, with net remittances of US$1.9 billion in stock investments, compared to US$831 million in 2005. Investments in fixed income securities registered net returns of US$1.4 billion, compared to net outflows of US$940 million in the previous year.

Table 5.31 – Other brazilian investments abroad

US$ million

Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	503	-5 538	-5 035	-3 039	-126	-3 165
Loans	-1 056	-784	-1 840	-1 092	-1 761	-2 853
Long term	-1 048	-824	-1 872	-1 206	-1 764	-2 970
Credit	722	1 347	2 069	788	725	1 513
Debit	1 770	2 171	3 941	1 993	2 490	4 483
Short term (net)	-8	40	32	113	4	117
Currency and deposits	1 636	-4 567	-2 930	-1 698	2 045	346
Banks	3 061	-4 248	-1 187	-703	2 558	1 855
Remaining domestic sectors	-1 425	-319	-1 744	-995	-514	-1 509
Other	-1 425	-319	-1 744	-995	-514	-1 509
Other assets	-78	-187	-265	-248	-410	-658
Long term	-47	-122	-169	-51	-147	-198
Credit	1	1	2	3	0	4
Debit	48	123	171	54	147	201
Short term (net)	-31	-65	-96	-197	-262	-460

Other Brazilian investments abroad registered net outflows of US$3.2 billion, compared to US$5 billion in 2005. Here, one should stress the US$3.3 billion reduction in the balance of currency and deposits abroad, mainly as a result of investments in the form of currency and bank deposits, with net returns of US$1.9 billion, compared to net outflows of US$1.2 billion in 2005. At the same time, this result was impacted by net granting of US$2.9 billion in loans abroad, with the result that the balance of long-term loans added up to net remittances of US$3 billion, compared to US$1.9 billion in the previous year. Other assets totaled net remittances of US$658 million, of which US$460 million consisting of short-term assets.

International reserves

The consistent flow of external resources over the course of 2006 made it possible for the Central Bank to purchase a net total of US$34.3 billion on the domestic exchange market. These operations marked a decisive contribution to the process of raising the international reserve position to a record level of US$85.8 billion at the end of the year, US$32 billion more than at the end of the preceding year.

Central Bank external operations totaled net spending of US$2.3 billion. Total disbursements of US$6.6 billion were concentrated in bond issuances, US$5.5 billion, broken down as follows: Euro 15, with US$362 million; Global 17, with US$1.5 billion; Global 37, US$2 billion; Global 34, US$198 million; and Global BRL 22, US$1.4 billion. Disbursements in operations with international organizations came to an overall total of US$1.2 billion.

Graph 5.12
International reserves

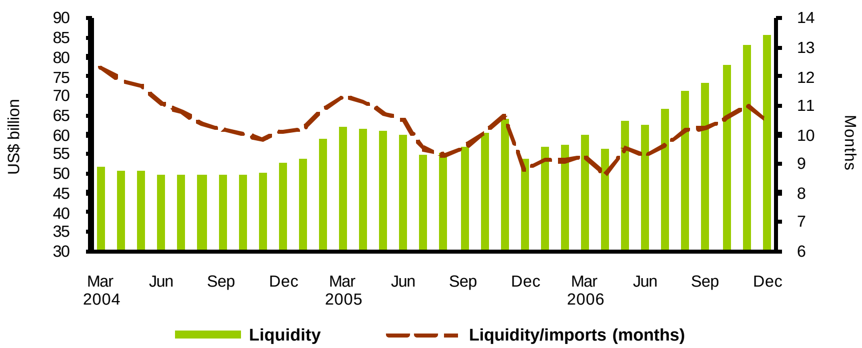


Table 5.32 – Brazil: Financial flow by foreign creditor – Selected items[1/]

US$ million

Itemization	2003	2004	2005	2006
IBRD[2/3/]	-872	-615	-121	1 261
Disbursements	1 437	1 524	1 644	2 717
Amortizations	1 886	1 821	1 424	1 046
Interest	424	317	341	410
IBD[3/]	-1 640	-1 965	-576	708
Disbursements	1 179	719	1 073	2 388
Amortizations	2 093	2 026	1 106	1 084
Interest	725	658	543	596
FMI	3 673	-5 577	-24 370	-125
Disbursements	17 596	-	-	-
Amortizations	12 826	4 363	23 271	-
Interest	1 097	1 214	1 099	125
Government agencies				
Agencies	-1 366	-2 314	-1 765	-2 443
Disbursements	1 731	785	1 219	1 469
Amortizations	2 585	2 617	2 624	3 470
Interest	512	482	360	442
memo:				
Paris Club	-1 474	-1 638	-1 090	-2 667
Amortizations	1 206	1 418	985	2 584
Interest	268	220	105	83
Bonds	-2 788	-5 815	-3 438	-18 727
Disbursements	7 087	5 928	12 490	5 575
New inflows	5 889	5 928	7 981	4 877
Refinancing	1 198	0	4 509	698
Amortizations	4 768	6 368	10 282	18 798
Paid	3 570	6 368	5 773	16 694
Refinanced	1 198	0	4 509	2 103
Interest	5 107	5 375	5 645	5 504
Notes & commercial papers	-4 055	-9 360	-6 392	-99
Disbursements	4 729	5 085	7 337	10 194
Amortizations	5 490	11 196	10 463	6 769
Interest	3 294	3 249	3 265	3 524
Intercompany – FDI	-325	-1 431	-1 231	1 884
Disbursements	6 150	5 259	8 018	9 590
Amortizations	5 327	5 683	7 997	6 181
Interest	1 148	1 007	1 253	1 525
Banks[4/]	-4 164	-2 817	-2 403	7 614
Disbursements	5 583	5 227	4 039	20 563
Amortizations	8 267	6 683	5 114	11 125
Interest	1 481	1 361	1 329	1 824
Loans	951	866	992	1 481
Financing	530	495	337	343

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

Amortizations reached US$12.9 billion, of which US$12.7 billion referred to bonds and US$138 million to the Multi-Year Deposit Facility Agreement (MYDFA). With regard to payments of sovereign bonds, it is important to stress anticipated payment of US$5.8 billion in Brady bonds through the April exercise of the call option.

Net interest revenues totaled US$2.4 billion, with revenues of US$2.8 billion in earnings on reserves and outlays of US$273 million referring to bonds and US$125 million to the IMF.

Table 5.33 – Statement of international reserves growth

US$ million

Itemization	2004	2005	2006
I - Reserve position (end of previous month)	49 296	52 935	53 799
1. Net purchases (+)/ sales (-) of Banco Central (interventions)	5 274	21 491	34 336
Spot	5 274	21 491	34 336
Lines with repurchase	-	-	-
Export lines	-	-	-
2. Banco Central's foreign operations	-1 635	-20 627	-2 297
Disbursements	6 741	12 490	6 605
Bonds	5 728	12 490	5 450
Organizations	1 013	-	1 155
Amortizations	-6 813	-27 914	-12 856
Bonds and MYDFA	-1 753	-4 641	-12 854
Organizations	-4 365	-23 273	-2
Paris Club	-696	-	-
Interest	-2 797	-2 261	2 417
Bonds and MYDFA	-2 595	-2 441	-273
Organizations	-1 214	-1 099	-125
Paris Club	-119	-2	-
Reserve interest earnings	1 131	1 280	2 815
Other[1/]	1 235	-2 941	1 537
II - Total Banco Central operations (1+2)	3 639	864	32 040
III - Reserve position (end of month)	52 935	53 799	85 839
Memorandum:			
Exchange market:	5 274	21 491	34 336
Transactions with residents (net)	12 270	19 223	36 428
Interbank transactions with non-residents (net)	-5 584	-475	-
Change in bank holdings (net)[2/]	-1 413	2 743	-2 092
Adjusted net reserves (excludes IMF loans)[3/]	27 541	...	…
Adjusted net reserves – according to the IMF arrangement	25 321	...	…

1/ Includes receipt/payment under reciprocal credits agreement (CCR), price fluctuations of bonds, change in currency and gold prices, acceptance/payment of premium/discount of fees, releases of collateral/guarantees and fluctuations of financial derivatives assets (forwards).

2/ Interventions undertaken through "lines with repurchase" does not change this item. Therefore, the result of the consolidated foreign exchange market only matches with the Banco Central's interventions through the "Spot" and "Export lines" modalities.

3/ The net adjusted reserves denominated in US$ take into account the parities of the last month to figure out the assets denominated in currencies unlike the US$. This concepthas not been applicable since the total amortization of the outstanding debt before the IMF, occurred in December, 2005.

Other operations totaled net revenues of US$1.5 billion, reflecting growth of US$1.2 billion in parity and US$305 million in security prices, together with revenues totaling US$1.3 billion resulting from releases of Brady bond guaranties, in contrast to outlays of US$881 million in premiums on National Treasury early buybacks of sovereign bonds, settled with resources drawn from the international reserve position.

National Treasury external debt service

In 2006, with the continued positive evolution of the nation's external accounts, the National Treasury maintained the policy begun in 2003 of contracting exchange on the domestic exchange market for purposes of servicing the bond-related debt (principal and interest) and the debt with the Paris Club. Over the course of the year, National Treasury market settlements reached a level of US$12.3 billion, including US$7.1 billion referring to principal and US$5.2 billion to interest. Among payments of principal, one should highlight those referring to Global bond 06, US$1.5 billion; Samurai 06, US$524 million; and Euro 06, US$805 million; the US$1.3 billion Tender Offer; US$697 million in Brady and Pre-Brady bonds; and finally to the Paris Club, US$2.6 billion. Among interest outlays, the most important were those referring to bonds, totaling US$5 billion incorporated into international reserves; Brady and Pre-Brady bonds, US$190 million; and the Paris Club, with US$83 million.

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

US$ million

Period	Maturity profile			Maturity settlement		
	Principal	Interest	Total	Market	Reserves	Total
Jan	3 089	925	4 014	3 218	796	4 014
Feb	2 408	650	3 057	1 324	1 734	3 057
Mar	2 060	380	2 440	1 123	1 317	2 440
Apr	6 940	783	7 723	1 553	6 170	7 723
May	949	195	1 144	869	275	1 144
Jun	1 393	175	1 568	1 129	440	1 568
Jul	548	750	1 298	731	567	1 298
Aug	160	467	626	437	190	626
Sep	319	308	627	315	312	627
Oct	262	499	761	486	275	761
Nov	949	278	1 227	1 076	150	1 227
Dec	99	75	173	72	102	173
2006	19 176	5 484	24 661	12 333	12 327	24 661

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

The recent performance of the nation's external accounts made it possible for the Brazilian government to broaden measures taken to improve the profile of Brazilian external liabilities, mainly through anticipated amortizations. These measures began in 2005 with partial exchange of Brady C-Bonds for A-Bonds and later settlement of the remaining balance, followed by anticipated settlement of the financial assistance program with the IMF at the end of the year. Among the major measures taken during the course of 2006, the National Treasury effected early settlement of the US$2.6 billion debt with the Paris Club by contracting exchange on the market; anticipation and total liquidation of Brady bonds through exercise of the call option; together with implementation of the external debt security buyback program.

In April 2006, the remaining balance of Brady bonds on the market was settled, US$6.5 billion. Of this total, US$5.8 billion involved exercise of the anticipated redemptions call option. In this case, the resources were withdrawn from the international reserve position, while the other US$609 million originated in normal amortizations, which had already been scheduled for that month. Thus, the securities originating in the external debt restructuring program, denominated the Brady Plan, were totally eliminated.

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

US$ million

Itemization	Principal	Interest	Premium/Discount	Total
Jan	774	22	84	881
Feb	1 684	50	216	1 949
Mar	1 269	48	184	1 501
Apr	369	8	68	446
May	270	5	44	319
Jun	113	3	22	138
Jul	548	19	85	652
Aug	160	7	28	195
Sep	304	8	54	366
Oct	262	13	51	326
Nov	144	6	26	177
Dec	98	4	20	121
2006	5 995	193	881	7 070

The Brady Plan resulted in novation of the debt between the public sector and its private creditors through issuance of seven different bonds of the Republic on April 15, 1992, in a total amount of US$43 billion. In order to facilitate this agreement, some securities were backed by guaranties of principal and/or interest. With settlement of the remaining balance of Brady bonds, guaranties totaling US$1.4 billion were released referring to Par and Discount bonds, which were incorporated into international reserves.

Initially, the Brazilian buyback program of outstanding external debt securities on the international market included only securities maturing through 2010, later expanded in the month of September to include maturities through 2012, together with restructured debt bonds. Aside from generating savings through reduction in flows of payments of interest futures, the program was designed to lengthen the maturity profile of the sovereign external debt.

Execution of the program in 2006 absorbed US$7.1 billion in international reserves, of which US$6 billion were spent on amortizations of principal at face value, which corresponded to the volume of the effective reduction of the external debt: US$193 million in interest and US$881 million in outlays on premiums.

Parallel to this, other measures were taken with the aim of reducing distortions in the Brazilian sovereign external debt interest curve by withdrawing high coupons from the securities market.

In this sense, an operation involving the exchange of Global 30 securities for Global 34 securities was carried out in the month of June. In that operation, US$148 million of the Global 30 was exchanged at face value and approximately 9% of the outstanding stock of this security was withdrawn from the market for US$198 million in issuance of Global 34, also at face value.

Also in the month of June, a partial repurchase tender offer for sovereign external debt bonds denominated in dollars and euros was carried out, with maturities distributed from 2007 to 2030. The operation resulted in amortizations of US$1,280 million at face value, expenditures of US$291 million in premiums and payments of interest totaling US$44 million. Of the total amount repurchased in terms of face value, 97.2% referred to securities denominated in dollars. Of total expenditures of US$1.6 billion, US$1 billion originated in exchange contracts settled on the market by the National Treasury, while the remainder was withdrawn from international reserves.

Finally, in the month of August, the National Treasury announced the result of the sovereign external debt bond exchange operation, denominated the Exchange Offer. This operation involved exchange of five different sovereign bonds (Globals 20, 24, 24B, 27 and 30) for issuance of Global 37 bonds with an equivalent face value. As a result, US$500 million of this bond were issued. The price difference between the bonds exchanged and the reopening price of the Global 37 resulted in outlays on premiums worth US$233 million, paid with funds drawn from international reserves. The operation also involved expenditures of US$20.2 million in interest, also settled with international reserve funds. This amount originated in the difference between the value of interest upon exchange of the bonds and the value of interest on issuance of Global 37.

External debt

In December 2006, the total external debt reached US$172 billion, up US$3 billion over the final 2005 figure. The medium and long-term debts totaled US$152.3 billion and the short-term debt added up to US$20.2 billion, representing increases of US$1.6 billion and US$1.4 billion, respectively, in the period. The outstanding stock of intercompany loans expanded US$8.2 billion, reaching US$26.8 billion.

Table 5.36 – Gross foreign indebtedness[1/]

US$ million

Itemization	2002	2003	2004	2005	2006
A. Total debt (B+C)	210 711	214 930	201 374	169 450	172 459
B. Medium and long-term debt[2/]	187 316	194 736	182 630	150 674	152 266
Exceptional financing	20 793	28 255	24 946	0	-
IMF	20 793	28 255	24 946	0	-
BIS	-	-	-	-	-
BoJ	-	-	-	-	-
Renegotiated debt bonds	18 226	16 068	14 174	6 948	0
Other bonds[3/]	39 848	45 747	48 059	55 842	51 968
Import financing	48 321	47 869	42 609	38 877	39 983
Multilateral	24 377	23 433	22 241	21 779	25 148
Bilateral	12 731	12 856	10 970	8 614	6 259
Other financing sources	11 213	11 579	9 398	8 483	8 575
Currency loans	60 127	56 797	52 842	49 007	60 315
Notes[4/]	48 539	46 661	42 037	38 257	40 151
Direct loans	11 588	10 136	10 805	10 750	20 164
Other loans	-	-	-	-	-
C. Short-term debt	23 395	20 194	18 744	18 776	20 192
Credit line for petroleum imports	65	0	-	-	-
Commercial banks (liabilities)	15 059	14 822	15 991	15 701	16 396
Resolution 2,483 – Rural financing	-	-	-	-	-
Special operations	8 271	5 372	2 753	3 075	3 796
Financing	4 760	1 299	782	602	531
Currency loans	3 512	4 073	1 971	2 473	3 264
D. Intercompany loans	16 978	20 484	18 808	18 537	26 783
E. Total debt + intercompany loans (A+D)	227 689	235 414	220 182	187 987	199 242

1/ In 2001, includes revision of debt position, which separates matured debt and excludes the stock of principal related to intercompany loans. In the years before 2001, the stock of intercompany loans are also displayed separately.
2/ Data refer to capital registration in the Banco Central do Brasil, that might not be compatible with the balance of payments figures, which represent inflows and outflows effectively occurred in the period.
3/ Includes pré-bradies (BIB).
4/ Includes commercial papers and securities.

The stock of external debt bonds dropped US$10.8 billion in 2006, and the amount composed of Brady bonds was totally eliminated. The stock of other bonds diminished US$3.9 billion, of which 97.6% referred to public sector bonds.

In December 2006, composition of the medium and long-term external debt was distributed as follows: 39.6% of the total referred to credits involving financial loans, 34.1% referred to bonds and 26.3% to commercial financing. The outstanding financial loan volume increased US$11.3 billion in 2006, including US$9.4 billion in direct loans and US$1.9 billion in notes. Trade financing increased US$1.1 billion.

In the year, the short-term debt expanded US$1.4 billion, reflecting the performance of both commercial banks, which increased US$695 million, and loan operations, with expansion of US$791 million.

Table 5.37 – Registered external debt

US$ million

Debtor	Creditor			
	Bonds	Multilateral institutions [1/]	Bank loans	*Notes* [2/]
A. Total	51 968	25 158	24 415	41 939
B. Medium and long-term	51 968	25 148	22 897	40 151
Public sector	50 741	22 096	5 027	3 665
Nonfinancial public sector	50 741	18 729	2 435	1 642
National Treasury	50 741	10 970	1 260	-
Banco Central do Brasil	-	-	138	-
Public enterprises	-	1 564	853	1 642
States and municipalities	-	6 195	183	-
Financial sector	-	3 367	2 592	2 023
Private sector	1 228	3 052	17 870	36 485
Nonfinancial sector	1 003	2 255	15 823	23 550
Financial sector	225	797	2 047	12 935
C. Short-term	-	10	1 518	1 788
Loans	-	-	1 343	-
Nonfinancial sector	-	-	674	-
Financial sector	-	-	669	-
Import financing	-	10	175	1 788
Nonfinancial sector	-	-	26	188
Financial sector	-	10	149	1 600
D. Intercompany loans	232	-	-	2 211
E. Total debt + intercompany loans (A+D)	52 200	25 158	24 415	44 150

(continues)

Table 5.37 – Registered external debt (concluded)

US$ million Outstanding: 12.31.2006

Debtor	Creditor			
	Government agencies	Suppliers credits	Others	Total
A. Total	6 259	5 216	1 108	156 062
B. Medium and long-term	6 259	4 869	974	152 266
Public sector	3 192	387	1	85 109
Nonfinancial public sector	2 328	387	1	76 263
National Treasury	690	274	-	63 935
Banco Central do Brasil	19	-	-	157
Public enterprises	1 185	110	1	5 355
States and municipalities	434	3	-	6 815
Financial sector	864	-	-	8 846
Private sector	3 068	4 482	973	67 158
Nonfinancial sector	2 997	4 481	444	50 553
Financial sector	71	1	529	16 605
C. Short-term	0	347	134	3 796
Loans	-	-	134	1 477
Nonfinancial sector	-	-	18	692
Financial sector	-	-	116	785
Import financing	0	347	-	2 319
Nonfinancial sector	0	346	-	559
Financial sector	-	1	-	1 760
D. Intercompany loans	-	-	24 340	26 783
E. Total debt + intercompany loans (A+D)	6 259	5 216	25 447	182 845

1/ Includes IMF.

2/ Includes commercial papers and securitizated loans.

In December, considering only the outstanding registered external debt, equivalent to 90.5% of the total external debt, the public sector was the largest debtor with 54.8% of the total, accumulating US$85.1 billion in medium and long-term resources and US$425 million in short-term resources. The registered external debt for which the private sector is liable was distributed into shares of US$67.2 billion in medium and long-term debt and US$3.4 billion in short-term debt. Medium and long-term private sector indebtedness was concentrated in the modality of notes, US$36.5 billion, accounting for 54.3% of the overall total.

In December 2006, the nonfinancial public sector held US$76.3 billion in medium and long-term external debt. Of this total, US$83.3% were concentrated at the National Treasury, including US$50.7 billion in the modality of bonds. Only US$157 million in external debt held by the Central Bank remained after anticipated settlement of the debt with the IMF at the end of 2005. Of this amount, US$138 million originated in the MYDFA, the instrument that served as the basis of the restructured debt; and US$19 million in loans from government agencies. State and municipal government debts represented 8.9% of the nonfinancial public sector, concentrated in credits from international organizations; state-owned company debts, with 7%, distributed among credits from international organizations, banks, notes and agencies.

Table 5.38 – Public registered external debt

Breakdown of principal by debtor and by guarantor

US$ million

Itemization	2002	2003	2004	2005	2006
Federal government (direct)	75 323	76 729	75 345	75 161	63 942
States and municipalities	6 149	6 364	6 904	6 474	6 815
Direct	3	2	-	-	-
Guaranteed by the federal government	6 146	6 363	6 904	6 474	6 815
Semi-autonomous entities, public	-	-	-	-	-
companies and mixed companies	39 650	48 328	43 041	14 953	14 777
Direct	13 539	13 708	12 280	9 447	9 041
Guaranteed by the federal government	26 111	34 620	30 761	5 505	5 735
Private sector (garanteed by the public sector)	328	225	128	98	89
Total	121 450	131 646	125 418	96 686	85 622
Direct	88 866	90 439	87 625	84 608	72 983
Guaranteed by	32 584	41 207	37 793	11 087	12 640
Federal government	32 376	41 023	37 604	11 044	12 597
States and municipalities	-	-	-	-	3
Semi-autonomous entities, public					
companies and mixed companies	208	184	188	44	40

The debt contracted with public sector guaranties reached US$12.6 billion in December 2006. Of this total, only US$89 million consisted of private sector debt.

The gross registered medium and long-term external debt amortization schedule showed concentration of 49.6% of total maturities in the next five years, according to the December 2006 position. The medium and long-term nonfinancial public sector debt accounted 33.3% of maturities through 2011 and the private sector debt reflected 67.2%. With regard to the registered external debt amortization schedule broken down by creditor, financial loans and lines corresponded to 70.6% of medium and long-term maturities in this same time span, while international organizations accounted for 14.8% of maturities.

The average term of the registered external debt increased from 7.8 years in December 2005 to 8.1 years in December 2006. In the latter position, the debt referring to suppliers/buyers was the modality with the shortest average term, 3.1

years, and that referring to bonds had the longest average term, with 12.6 years. The average term in operations with international organizations shifted from 6.5 years in December 2005 to 6.7 years at the end of 2006.

Table 5.39 – Registered external debt – By debtor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt	2007	2008	2009	2010	2011
A. Total debt (B+C)	156 062	23 653	22 067	10 987	12 282	10 272
B. Medium and long-term debt	152 266	20 219	21 705	10 987	12 282	10 272
Nonfinancial public sector	76 263	6 714	4 585	4 219	4 648	5 268
Central government	64 093	5 077	3 023	3 089	3 669	3 974
Others	12 170	1 637	1 562	1 130	979	1 293
Financial public sector	8 846	1 090	1 309	433	791	1 302
Private sector	67 158	12 416	15 811	6 335	6 843	3 702
C. Short-term debt	3 796	3 433	362	-	-	-
Nonfinancial public sector	6	6	-	-	-	-
Financial public sector	419	417	1	-	-	-
Private sector	3 371	3 010	361	-	-	-
D. Intercompany loans	26 783	8 606	4 191	1 653	1 634	2 162
E. Total debt + intercompany loans (A+D)	182 845	32 258	26 258	12 640	13 916	12 434

(continues)

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

Amortization schedule[1/]

US$ million — Outstanding: 12.31.2005

Itemization	2012	2013	2014	2015	2016	Beyond and arrears
A. Total debt (B+C)	8 850	9 362	5 563	8 651	7 269	37 107
B. Medium and long-term debt	8 850	9 362	5 563	8 651	7 269	37 107
Nonfinancial public sector	6 148	3 779	2 950	5 114	3 233	29 608
Central government	5 226	2 868	2 353	4 239	2 587	27 988
Others	922	910	597	875	646	1 620
Financial public sector	415	1 045	364	325	284	1 489
Private sector	2 287	4 538	2 250	3 212	3 753	6 010
C. Short-term debt	-	-	-	-	-	- 0
Nonfinancial public sector	-	-	-	-	-	-
Financial public sector	-	-	-	-	-	-
Private sector	-	-	-	-	-	-
D. Intercompany loans	664	496	709	749	1 239	4 681
E. Total debt + intercompany loans (A+D)	9 514	9 858	6 272	9 400	8 508	41 787

1/ Includes exceptional financing.

Table 5.40 – Registered external debt – By creditor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt	2007	2008	2009	2010	2011
A. Total debt (B+C)	156 062	23 653	22 067	10 987	12 282	10 272
B. Medium and long-term debt	152 266	20 219	21 705	10 987	12 282	10 272
International organizations	25 148	1 936	1 965	2 293	2 487	2 484
Government agencies	6 259	767	778	821	813	611
Buyers	3 707	1 006	751	605	372	283
Suppliers	4 869	1 589	547	386	1 431	240
Currency loans	60 315	11 041	15 624	4 980	4 699	3 549
Notes[2/]	40 151	7 888	5 302	3 693	3 742	1 928
Direct loans	20 164	3 153	10 322	1 287	957	1 621
Bonds	51 968	3 879	2 039	1 902	2 480	3 105
C. Short-term debt	3 796	3 433	362	-	-	-
D. Intercompany loans	26 783	8 606	4 191	1 653	1 634	2 162
E. Total debt + intercompany loans (A+D)	182 845	32 258	26 258	12 640	13 916	12 434

(continues)

Table 5.40 – Registered external debt – By creditor (concluded)

Amortization schedule[1/]

US$ million Outstanding: 12.31.2006

Itemization	2012	2013	2014	2015	2016	Beyond and arrears
A. Total debt (B+C)	8 850	9 362	5 563	8 651	7 269	37 107
B. Medium and long-term debt	8 850	9 362	5 563	8 651	7 269	37 107
International entities	3 331	2 035	1 409	1 285	1 143	4 780
Government agencies	568	486	386	335	257	437
Buyers	297	156	130	74	10	22
Suppliers	74	152	36	48	31	335
Currency loans	1 623	4 254	1 928	3 256	3 611	5 750
Notes[2/]	986	3 353	1 632	2 760	3 481	5 386
Direct loans	637	901	296	496	130	364
Bonds	2 957	2 278	1 675	3 654	2 216	25 783
C. Short-term debt	-	-	-	-	-	-
D. Intercompany loans	664	496	709	749	1 239	4 681
E. Total debt + intercompany loans (A+D)	9 514	9 858	6 272	9 400	8 508	41 787

1/ Includes exceptional financing.

2/ Includes commercial papers and securities.

Table 5.41 – Average maturity term

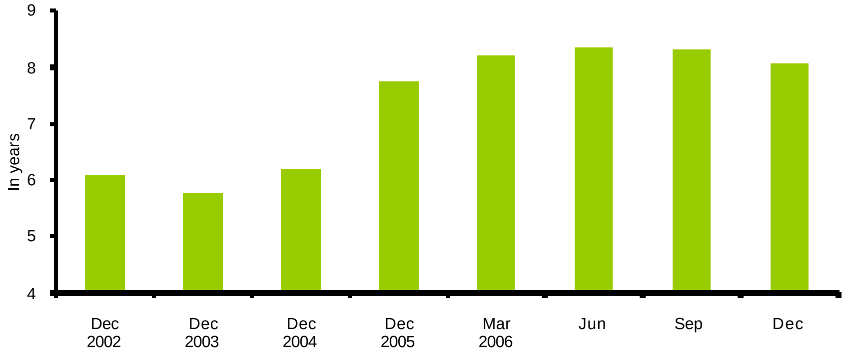
Registered external debt[1/]

US$ million

Itemization	2006	Average maturity (years)
A. Total	154 910	8.06
International organizations	25 148	6.74
Government agencies	6 252	5.09
Buyers/suppliers	8 292	3.15
Currency loans + short-term	63 250	4.82
Bonds	51 968	12.62
Bradies	217	4.00
Global/Euro	50 524	12.82
Others	1 228	5.99
B. Intercompany loans	23 626	4.98
C. Total + intercompany loans	178 536	7.31

1/ Excludes debt in arrears.

Graph 5.13
Average term of registered external debt



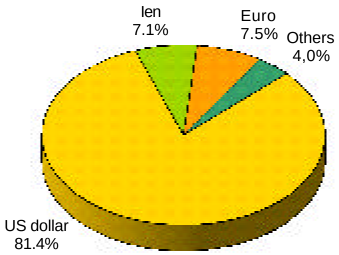
With respect to composition of the registered external debt broken down by currency, the participation of the United States dollar dropped from 82.1% of the total in December 2005 to a level of 81.4% at the end of 2006. Participation of the Euro dropped from 8.5% to 7.5% in the period and that of the yen expanded from 6.8% to 7.1%.

As regards composition by interest rate modality, the outstanding debt with earnings at floating interest rates increased from 31.4% of the total at the end of 2005 to 35.9% in December 2006. Of the total debt contracted in the form of floating rates, the six-month LIBOR remained as the major indexing factor, increasing its relative participation in the outstanding floating-rate debt from 55.1% to 55.7% in the period.

Graph 5.14

Registered external debt composition

December 2006



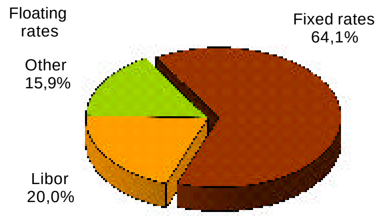


Table 5.42 – Indebtedness indicators[1/]

US$ million

Itemization	2002	2003	2004	2005	2006
Debt service	49 893	52 988	51 800	66 048	56 858
Amortizations[2/]	35 677	38 809	37 561	51 587	41 979
Gross interest	14 216	14 179	14 239	14 460	14 879
Medium and long-term external debt (A)	187 316	194 736	182 630	150 674	152 266
Short-term external debt (B)	23 395	20 194	18 744	18 776	20 192
Total debt (C)=(A+B)	210 711	214 930	201 374	169 450	172 459
International reserves (D)	37 823	49 296	52 935	53 799	85 839
Brazilian credit abroad (E)[3/]	2 798	2 915	2 597	2 778	2 939
Commercial bank assets (F)	5 090	11 726	10 140	11 790	8 984
Net debt (G)=(C-D-E-F)	164 999	150 993	135 702	101 082	74 697
Export	60 362	73 084	96 475	118 308	137 470
GDP	504 359	553 603	663 783	882 729	1067 325
Indicators (in percentage)					
Debt service/exports	82.7	72.5	53.7	55.8	41.4
Debt service/GDP	9.9	9.6	7.8	7.5	5.3
Total debt/exports	349.1	294.1	208.7	143.2	125.5
Total debt/GDP	41.8	38.8	30.3	19.2	16.2
Net total debt/exports	273.4	206.6	140.7	85.4	54.3
Net total debt/GDP	32.7	27.3	20.4	11.5	7.0

1/ Excludes stock of principal, amortizations and interests concerning intercompany loans. Considers a review in the medium and long-term indebtedness position of the private sector.

2/ Includes the payments referring to the financial assistance program. Refinanced amortizations are not considered.

3/ Export Financing Program (Proex).

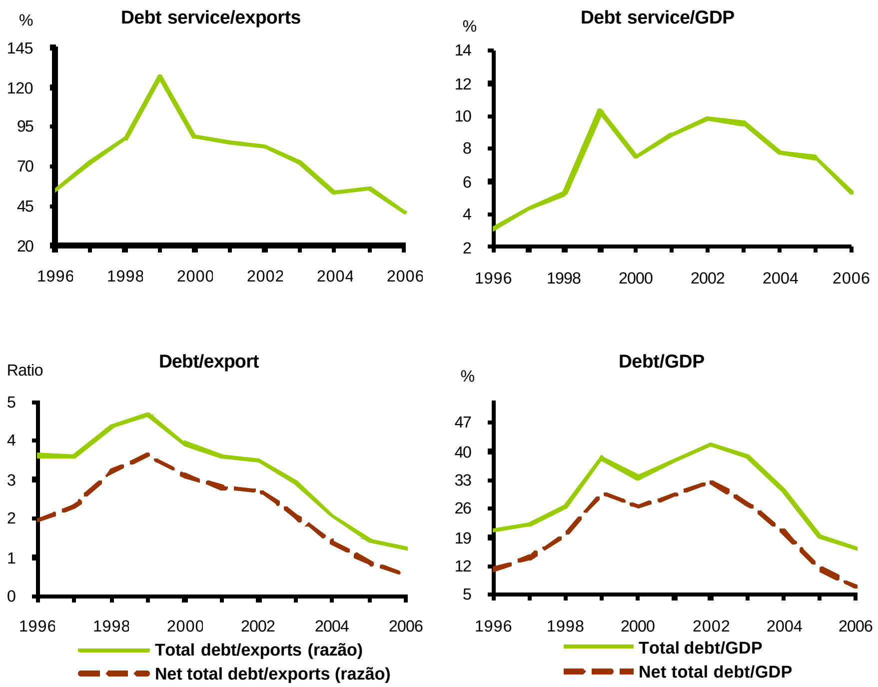
Sustainability indicators

External sustainability indicators evolved in a highly positive fashion in 2006. This performance was clearly consistent with the increase in international reserves and the cutback in external servicing operations, particularly in the case of amortizations, within a framework of growth in the dollar value of exports and GDP.

The value of cumulative debt servicing over 12 months dropped 13.9% in 2006, reflecting the cutback in amortizations consequent upon anticipated payment of the Brady C-Bond and of the country's indebtedness to the IMF in 2005, which raised the value of the debt service in that year. Cumulative 12-month exports expanded 16.2% in 2006, compared to the same period of the previous year and aided in reducing the participation of debt service in overall exports by 14.4 p.p., to a level of 41.4% in 2006. This result was sharply lower than the record indicator of 126.5% registered at the end of 1999. In the same sense, the total external debt/GDP ratio dropped from 19.2% to 16.2%, while the net total debt in relation to GDP shifted from 11.5% to 7%. In both cases, these percentages were far below the historic maximums registered in 1984, 53.8% and 46.3%,

Graph 5.15

Indebtedness indicators



respectively. Finally, the quotient between the total net debt and exports registered the lowest level in the historical series since 1970, and declined to just 0.5%, while the largest quotient ever observed reached 4.6 in 1986.

External funding operations

The face value of the securities issued by the Federative Republic of Brazil in 2006 came to US$5.5 billion. International market funding operations were distributed over the course of the entire year and were denominated in the

Table 5.43 – Issues of the Republic

Itemization	Date of inflow	Date of maturity	Maturity years	Value US$ million	Coupon % p.y.	Rate of return at issuance % p.y.	Spread over U.S. Treasury[1/] basis points
Euromarco 07	2.26.1997	2.26.2007	10	592	8.000		242
Global 27[2/]	6.9.1997	6.9.2027	30	3 500	10.125	10.90	395
Eurolira[3/]	6.26.1997	6.26.2017	20	443	11.000		348
Eurolibra	7.30.1997	7.30.2007	10	244	10.000	8.73	268
Global 08	4.7.1998	4.7.2008	10	1 250	9.375	10.29	375
Euromarco 08[4/]	4.23.1998	4.23.2008	10	410	10 to 7	8.97	328
Global 09	10.25.1999	10.15.2009	10	2 000	14.500	14.01	850
Euro 06	11.17.1999	11.17.2006	7	723	12.000	12.02	743
Global 20	1.26.2000	1.15.2020	20	1 000	12.750	13.27	650
Euro 10	2.4.2000	2.4.2010	10	737	11.000	12.52	652
Global 30[5/]	3.6.2000	3.6.2030	30	1 600	12.250	12.90	663
Global 07[6/]	7.26.2000	7.26.2007	7	1 500	11.250	12.00	612
Global 40	8.17.2000	8.17.2040	40	5 157	11.000	13.73	788
Euro 07[7/]	10.5.2000	10.5.2007	7	656	9.500	11.01	508
Samurai 06	12.22.2000	3.22.2006	5	531	4.750	10.92	531
Global 06	1.11.2001	1.11.2006	5	1 500	10.250	10.54	570
Euro 11	1.24.2001	1.24.2011	10	938	9.500	10.60	560
Global 24	3.22.2001	4.15.2024	23	2 150	8.875	12.91	773
Samurai 07	4.10.2001	4.10.2007	6	638	4.750	10.24	572
Global 12	1.11.2002	1.11.2012	10	1 250	11.000	12.60	754
Global 08N	3.12.2002	3.12.2008	6	1 250	11.500	11.74	738
Euro 09	4.2.2002	4.2.2009	7	440	11.500	12.12	646
Global 10	4.16.2002	4.15.2010	8	1 000	12.000	12.38	719
Global 07N	5.6.2003	1.16.2007	4	440	11.500	10.70	646
Global 13	6.17.2003	6.17.2013	10	1 000	12.000	10.58	719
Global 11[8/]	8.7.2003	8.7.2011	8	1 000	10.000	11.15	783
Global 24B	8.7.2003	4.15.2024	21	1 250	10.250	12.59	738
Global 10N	10.22.2003	10.22.2010	7	1 250	10.000	9.45	701
Global 34	1.20.2004	1.20.2034	30	1 500	8.250	8.75	377
Global 09 N	6.28.2004	6.29.2009	5	750	Libor 3m +5,76	Libor 3m + 5,94	359

(continues)

Table 5.43 – Issues of the Republic (concluded)

Global 14[9/]	7.14.2004	7.14.2014	10	1 250	10.500	10.80	538
Euro 12[10/]	9.24.2004	9.24.2012	8	1 228	8.500	8.57	474
Global 19	10.14.2004	10.14.2019	15	1 000	8.875	9.15	492
Euro 15	2.3.2005	2.3.2015	10	652	7.375	7.55	399
Global 25	2.4.2005	2.4.2025	20	1 250	8.750	8.90	431
Global 15	3.7.2005	3.7.2015	10	1 000	7.875	7.90	353
Global 19 (Reopening)	5.17.2005	10.14.2019	14	500	8.875	8.83	458
Global 34 (Reopening)	6.2.2005	1.20.2034	29	500	8.250	8.81	440
Global 15 (Reopening)	6.27.2005	3.7.2015	10	600	7.875	7.73	363
A-Bond 18 (Swap C Bond)	8.1.2005	1.15.2018	13	4 509	8.000	7.58	336
Global 25 (Reopening)	9.13.2005	2.4.2025	20	1 000	8.750	8.52	417
Global BRL 16	9.26.2005	1.5.2016	10	1 479	12.500	12.75	-
Global 15 (Reopening)	11.17.2005	3.7.2015	9	500	7.875	7.77	312
Global 34 (Reopening)	12.6.2005	1.20.2034	28	500	8.250	8.31	363
Global 37	1.18.2006	1.20.2037	31	1 000	7.125	7.56	295
Euro 15 (Reopening)	2.3.2006	2.3.2015	9	362	7.375	5.45	185
Global 37 (Reopening)	3.23.2006	1.20.2037	31	500	7.125	6.83	204
Global 34 (Reopening)	6.2.2006	1.20.2034	28	198	8.250	8.24	-
Global 37 (Reopening)	8.15.2006	1.20.2037	30	500	7.125	7.15	205
Global BRL 22	9.13.2006	1.5.2022	15	743	12.500	12.88	-
Global BRL 22 (Reopening)	10.13.2006	1.5.2022	15	301	12.500	12.47	-
Global 17	11.14.2006	1.17.2017	10	1 500	6.000	6.25	159
Global BRL 22 (Reopening)	12.11.2006	1.5.2022	15	346	12.500	11.66	-

1/ Over US Treasury, in the closing date. For bonds issued in more than one tranche, spread weightened by the value of each tranche.

2/ The inflow occured on two dates: US$3 billion, on 6.9.1997; and US$500 million, on 3.27.1998.

3/ The inflow occured on two dates: ITL500 billion, on 6.26.1997; and ITL250 billion, on 7.10.1997.

4/ Step-down - 10% in the first two years and 7% in the following years.

5/ The inflow occurred in two dates: US$1 billion, with spread of 679 bps, on 3.6.2000; and US$600 million, with spread of 635 bps, on 3.29.2000.

6/ Global 07 was issued in two tranches: US$1 billion, with spread of 610 bps, on 7.26.2000; and US$500 million, with spread of 615 bps, on 4.17.2001.

7/ Euro 07 was issued in two tranches: EUR500 million, with spread of 512 bps, on 9.19.2000; and EUR250 million, with spread of 499 bps, on 10.2.2000.

8/ Global 11 was issued in two tranches: US$500 million, with spread of 757 bps, on 8.7.2003; and US$750 million, with spread of 633 bps, on 9.18.2003.

9/ Global 14 was issued in two tranches: US$750 million, with spread of 632 bps, on 7.7.2004; and US$500 million, with spread of 398 bps, on 12.06.2004.

10/ Euro 12 was issued in two tranches: EUR 750 million, with spread of 482 bps, on 9.8.2004; and EUR 250 million, with spread of 448 bps, on 9.22.2004.

following currencies: euro, with the reopening of the Euro 15; dollars, with issuance of Global 37 and Global 17 and reopening of Global 34; and Real, with issuance of Global BRL 22. The maturity terms of these securities varied from 9 to 31 years. Risk premiums, defined as the difference between the rate of return offered by Brazilian securities and that of American treasury bonds in 2006 issuances, closed with the lowest value on issuance of Global 17, with just 159 basis points, and the highest value at issuance of Global 37, with 295 basis points. The breadth of this variation was due to the behavior of country risk, which tended

Table 5.44 – Restructured external debt – Bradies, Pre-Bradies and MYDFA

Itemization	Outstanding 12.31.2006 US$ million	Maturity
Capitalization Bonds (C Bonds)	-	-
Debt Conversion Bonds (DCB)	-	-
Discount Bonds	-	-
Eligible Interest Bonds (EI)	-	-
Front Loaded Interest Reduction Bond (FLIRB)	-	-
New Money Bond 1994 (NMB)	-	-
Par Bonds	-	-
Exit Bond (BIB) – (pre-Bradies)	217	9.15.2013
Multiyear Deposit Facility Agreement (MYDFA)	138	9.15.2007
Total	355	-

downward during the course of the entire year. In September, the National Treasury carried out the second issuance of sovereign external debt denominated in real, with launching of the Global BRL 22, with reopenings in October and December.

The restructured external debt totaled US$355 million in December 2006, down US$7.1 billion compared to December 2005. The major share of this reduction was due to the Brady bond call operation in April 2006. Consequently, the remaining balance of the restructured external debt in December 2006 refers exclusively to the Brazil Investment Bond (BIB), in the amount of US$217 million and to the MYDFA, in the amount of US$138 million.

Brazilian external debt securities

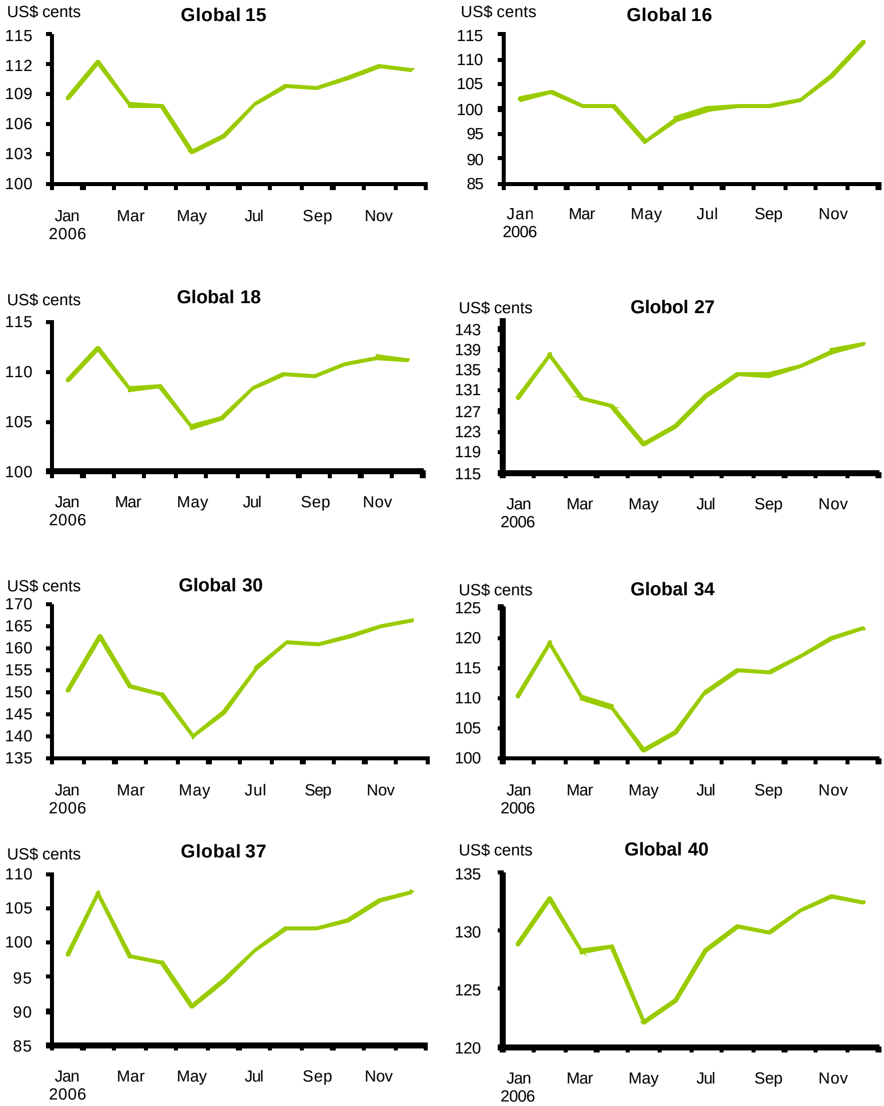
In 2006, in keeping with improvement in external investor perceptions of the nation's country risk, the values of the major Brazilian external debt securities increased.

The basket of Brazilian external debt securities, weighted by liquidity, showed an average differential in earnings of 235 basis points in relation to American Treasury bonds calculated according to daily observations over the course of 2006. This figure should be compared to the 2005 level of 399 points and the 2004 result of 542 points. The Brazil risk index, which had begun the year at 311 basis points, dropped to 192 points at the end of 2006.

Graph 5.16

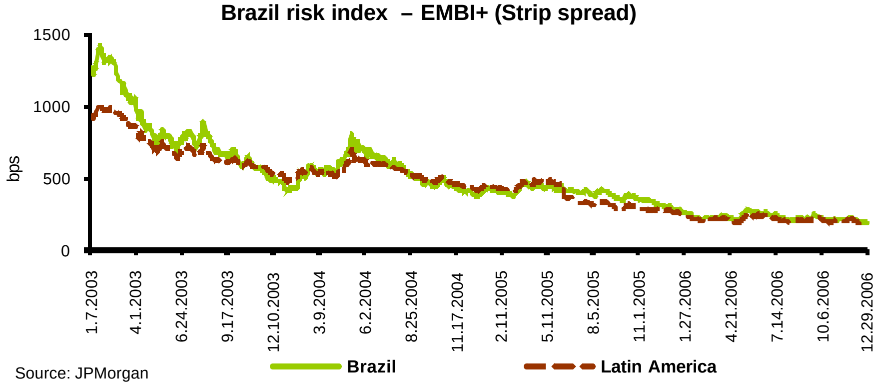
Prices of Brazilian securities abroad

Secondary market – Bid price, end-of-period – 2006



Graph 5.17

Brazil risk index – EMBI+ (Strip spread)



Source: JPMorgan

International Investor Position

In the period extending from December 2005 to September 2006, net external liabilities expanded 8.8%, totaling US$358 billion. The change in the International Investor Position (IIP) reflected increases of US$57.7 billion in external liabilities and US$28.9 billion in external assets.

As regards evolution of the stock of external assets in 2006 through September, one should highlight the increase of US$19.6 billion in international reserves, adding up to US$73.4 billion at the end of the period. It should be stressed further that growth came to US$7.8 billion in total direct Brazilian investments abroad, reaching an overall level of US$87 billion, while other investments closed at US$3.8 billion, including US$3.6 billion in currency and deposits. Parallel to these results, one observes a reduction of US$2.1 billion in Brazilian portfolio investments, caused by a reduction of US$2.6 billion in investments in fixed income securities, partially offset by the US$540 million increase in stock investments.

Table 5.45 – International investment position

US$ million

Itemization	2004	2005	2006-Sep
International investment position (A-B)	-297 609	-328 985	-357 796
Assets (A)	148 536	170 282	199 213
Direct investment abroad	69 196	79 259	87 049
Equity capital[1/]	54 027	65 418	71 793
Intercompany loans	15 169	13 842	15 256
Portfolio investment[2/]	9 353	10 834	8 782
Equity securities	2 352	2 809	3 349
Debt securities	7 001	8 026	5 433
Bonds and notes	4 028	4 850	2 491
Of which collateral (principal)	1 129	1 249	-
Money-market instruments	2 973	3 176	2 941
Financial derivatives	109	119	-119
Other investment	16 943	26 271	30 108
Trade credits (of suppliers)	68	98	98
Loans	631	2 826	3 194
Currency and deposits	10 418	17 077	20 643
Other assets	5 826	6 269	6 173
Of which collateral (interests) and memberships	-	-	-
in international financial organizations	1 230	1 363	1 102
Reserve assets	52 935	53 799	73 393

(continues)

Table 5.45 – International investment position (concluded)

US$ million

Itemization	2004	2005	2006-Sep
Liabilities (B)	446 145	499 268	557 009
Direct investment in reporting economy	161 259	195 562	221 914
Equity capital[1/]	142 451	177 024	199 140
Intercompany loans	18 808	18 537	22 775
Portfolio investment[2/]	184 758	232 627	263 145
Equity securities	77 261	125 532	156 013
In the reporting country	27 118	50 394	68 547
Abroad	50 143	75 138	87 466
Debt securities	107 497	107 096	107 133
Bonds and notes	107 497	107 096	107 133
In the reporting country	2 982	5 147	14 511
Abroad	104 515	101 949	92 622
Medium and long-term	104 271	101 047	90 299
Medium and short-term	244	901	2 323
Financial derivatives	320	219	639
Other investment	99 809	70 859	71 310
Trade credits	4 728	4 772	5 168
Medium and long-term	4 414	4 424	4 843
Medium and short-term	314	349	325
Loans	92 133	62 729	61 770
Monetary authority	25 394	301	157
Use of Fund credit & loans from the Fund	24 946	-	-
Other long-term	448	301	157
Short-term	-	-	-
Other sectors	66 739	62 428	61 613
Long-term	48 553	44 902	46 172
International entities	22 241	21 779	24 749
Government agencies	10 970	8 614	6 192
Buyers	4 984	4 059	3 775
Direct loans	10 358	10 449	11 456
Short-term	18 186	17 527	15 441
Currency and deposits	2 948	3 358	4 372
Monetary authority	100	111	81
Banks	2 848	3 246	4 291
Other liabilities	-	-	-

1/ Includes reinvested earnings.
2/ Includes securities issued by residents.

In terms of evolution of the stock of external liabilities, portfolio investments increased US$30.5 billion, totally as a result of variations in the overall amount of stock investments. In the same sense, the stock of foreign direct investments expanded US$26.4 billion and reached US$221.9 billion in September 2006. The stock of other investments expanded US$451 million in the period.