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**The Brazilian economy** – Consultative Group on Domestic Economic Activity (Coace) (E-mail: coace.depec@bcb.gov.br);

**Money and credit** – Monetary and Banking Division (Dimob) (E-mail: dimob.depec@bcb.gov.br);

**Public finance** – Public Finance Division (Difin) (E-mail: difin.depec@bcb.gov.br);

**Economic-financial relations with the international community** – Balance of Payments Division (Dibap) (E-mail: dibap.depec@bcb.gov.br);

**The world economy** – Consultative Group on Economic Research and Analysis (Copec) (E-mail: copec.depec@bcb.gov.br);

**International financial organizations** – Department of Foreign Debt and External Relations (Derin) (E-mail: derin@bcb.gov.br);

## Information on the Boletim:

Phone 55.61 414-1009

Fax 55.61 414-2036

Telex 55.61 1400 (BCBR BR)

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

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Caixa Postal 8.670

70074-900 Brasília – DF – Brazil

Phones: (5561) 414-3710 and 414-3567

Fax: (5561) 414-3626

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E-mail: cap.secre@bcb.gov.br



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## Introduction

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Evolution of the Brazilian economy in 2006 was consistent with consolidation of internal market growth, coupled with continued world economic expansion, driven by a positive performance in the United States of America and accelerated growth in the major emerging economies. Internally, the dynamics of the economy reflect the benign macroeconomic scenario, as reflected in rising real income, expanding credit and improved expectations. To this scenario, one must add responsible fiscal management, as evident in successive surpluses, qualitative improvements in the allocation of spending and reductions in the exposure of public accounts to market risks. As regards the external sector, mention should be made of intensification of the ongoing structural process of strengthening the Brazilian balance of payments.

Brazilian economic performance is a clear demonstration that monetary policy has been adequately implemented with the objective of ensuring a continued environment of price stability, which by reducing uncertainties for economic agents stimulates measures of essential importance to consolidating sustainable economic growth.

In light of the annual inflation target of 4.5% defined by the National Monetary Council (CMN), the Monetary Policy Committee (Copom) reduced the Selic rate target, which is used to guide open market interventions, by a total of 4.75 percentage points (p.p) over the course of the year's eight meetings, closing with a final rate of 13.25% per year (p.y.) in December. At the same time, the CMN introduced a 2.9 p.p. cutback in the Long-Term Interest Rate (TJLP), the rate used as a benchmark for National Bank of Economic and Social Development (BNDES) credit operations, reducing it to 6.85% per year in the period under consideration. It is important to stress that the process of adopting a more flexible monetary policy in Brazil was greatly facilitated by downward movement in inflation expectations for 2006. As of the month of April, the cumulative 12-month figure was consistently lower than the established target. Starting in September, a similar tendency was noted in expectations regarding 2007 price indices.

In the first three meetings of the year, Copom reduced the Special System of Clearance and Custody (Selic) target rate an additional 0.75 p.p., thus reducing the intensity of the reductions to 0.5 p.p. in its subsequent meetings.

Copom met in both January and March 2006 and came to the conclusion that the external scenario remained favorable, particularly as regards the outlook for financing the Brazilian economy. The Committee also concluded that economic activity had consolidated a growth trend at a rate consistent with supply conditions, without the danger of generating significant pressures on inflation. Parallel to this, it was determined that the inflationary uptick that occurred in early 2006 was due to predominantly seasonal factors that will gradually dissipate over time. In April, although rising international commodity prices had introduced an additional element of risk in relation to domestic prices, the overall scenario was still defined as benign as regards the inflation path. Nonetheless, preservation of the important victories achieved in combating inflation and maintaining the process of economic growth could demand a somewhat more stringent approach in the process of adopting a more flexible monetary policy in the country.

During its other meetings in the year, Copom continued the more flexible monetary approach, taking steps to introduce successive 0.5 p.p. cutbacks in the Selic rate target. The reduction in the level of cutbacks mirrored uncertainties both in relation to the degree of transmission of the process of adopting a more flexible monetary policy begun in September 2005, as well as in relation to the impacts of alterations in United States monetary policy on external liquidity conditions.

In this framework, the Brazilian economy registered accelerated growth in 2006, particularly in the final two quarters of the year. This expansion was driven by expanding internal demand, mainly a strong performance in terms of Gross Fixed Capital Formation (GFCF), understood as a clear sign of the confidence of economic agents in the ongoing process of economic expansion and household consumption. This component, in turn, was powered by growth in overall wages, the increased availability and attractiveness of credit operations and a high level of consumer confidence, clearly favoring sales of consumer durables.

The 8.7% increase in the GFCF, the third consecutive positive annual result, reflected favorable performances under both building industry inputs and capital goods production. Production of building industry inputs expanded 4.5% in 2006, against 1.3% in the previous year, clearly reflecting improvements in the macroeconomic environment. Parallel to this evolution, capital goods production registered across-the-board expansion in all segments, with the exception of those closely tied to the crop/livestock sector and transportation equipment, closing with a 5.7% rise in the year, against 3.6% in 2005.

The evolution of financial system credit operations in 2006 continued the growth process begun in the previous year and, for the most part, reflected financing operations backed by non-earmarked resources. Loan demand at the household level was influenced by personal loans and acquisitions of consumer durables, since these two segments reflect highly positive income and employment conditions. As far as corporate operations are concerned, growth in loans was sustained by the performance of operations based on domestic resources, primarily involving working capital operations, as small and medium businesses began participating more intensively in overall bank credits. It should be noted that credit demand by large scale companies has been influenced by increased access to sources of funding other than the banking network, mostly involving primary issuances of debentures and stocks.

The primary surplus of the nonfinancial public sector reached 3.88% of Gross Domestic Product (GDP) in 2006, against 4.35% in the previous year. Growth in public sector accounts resulted in a steady downturn in the debt/GDP ratio, a process that is expected to deepen even further during the year as a result of the more flexible monetary policy. Improvement in the profile of the Public Sector Net Debt (PSND), as volatility decreased and maturities expanded, is a clear sign of efficient management of public sector liabilities and growth in the confidence levels of economic agents.

Following the example of the fiscal sector, the government adopted a series of external sector measures aimed at enhancing the economy's resilience in the face of possible external shocks. In this context, the stock of international reserves rose sharply in 2006, attaining record levels; the public sector external debt remained on a downward trajectory, marked by steady improvement in its overall profile; external placements of sovereign bonds aided in constructing more complete interest curves; the reduction in risk premiums moved steadily forward; and the outlook for improved ratings on the part of international risk agencies was clearly promising.

The evolution of sustainability indicators, impacted both by expanding exports and growth in the external assets held by the monetary Authority, reflected the highly positive situation of Brazil's external accounts and further reinforced the already positive evolution of risk levels in Brazil. Performance of the Brazilian foreign trade sector was the major determining factor underlying the positive results achieved in current account, emphasizing that expansion of the trade balance surplus, marked by a process of rising imports, was certainly consistent with the upturn in the level of domestic economic activity.

# The Brazilian Economy

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## Activity level

Brazilian economic growth accelerated in 2006, particularly in the final two quarters. All of the various sectors posted across-the-board expansion, driven by strong internal demand for both investment products and consumption. The improvement registered by the Brazilian economy reflects effective monetary policy management, targeted at ensuring price stability, while reducing the uncertainties faced by economic agents and thereby stimulating the spending required for sustainable economic growth.

Analysis of demand components indicates strong growth under Gross Fixed Capital Formation (GFCF) compared to household consumption, suggesting renewed confidence in the continuity of economic growth. Family consumption was driven by expanding overall wages, a steadily increasing credit supply and a high level of consumer confidence, all of which are elements that stimulate further sales of consumer durables.

The growing dynamics of the internal market impacted the volume of imports of goods and services which, for the first time in eight years, expanded at a rate greater than exports. Despite this shift, the trade balance achieved a record surplus, mainly as a result of higher prices for Brazilian exports.

## Gross Domestic Product

According to figures released by the Brazilian Institute of Geography and Statistics (IBGE), Gross Domestic Product (GDP) registered real growth of 3.7% in 2006, the 14th consecutive year of positive economic expansion. At current values, GDP reached R\$2,322.8 billion at market prices.

The performance of the internal market was a determining factor underlying 2006 GDP growth, considering that the external sector made a negative contribution of 1.4 p.p. Internal demand accounted for 4.8 p.p. of GDP growth, with positive expansion in all sectors. Here, particular emphasis should be given to the farm sector, services and to mining and construction, in industrial sector.

When one considers quarterly GDP growth in 2006 – always on a quarter-on-quarter basis utilizing seasonally adjusted data – the first quarter showed growth of 1.6%, mainly as a consequence of the process of economic recovery initiated in the second half of 2005. Using this basis of comparison, the farm sector showed growth of 2.2%, reflecting suitable climatic conditions that had a strongly positive influence on the corn and soybean crops. Industry expanded 1%, particularly in light of the relative dynamics shown by the sector of consumer durables, a performance that was not repeated in the categories of capital goods and intermediate goods, which turned in relatively stable performances in the period. The service sector expanded 1.7%, reflecting the performances of other sectors of the economy.

**Table 1.1 – GDP at market prices**

Year	At 2006 prices (R\$ million)	Real change (%)	Implicit deflator (%)	At current prices <sup>1/</sup> (US\$ million)	Population (million)	Per capita GDP		
						At 2006 prices (R\$)	Real change (%)	At current prices <sup>1/</sup> (US\$)
1980	1 302 591	9.2	92.1	237 772	118.6	10 986	7.0	2 005
1981	1 247 230	-4.3	100.5	258 553	121.2	10 290	-6.3	2 133
1982	1 257 582	0.8	101.0	271 252	123.9	10 151	-1.3	2 190
1983	1 220 735	-2.9	131.5	189 459	126.6	9 645	-5.0	1 497
1984	1 286 655	5.4	201.7	189 744	129.3	9 953	3.2	1 468
1985	1 387 645	7.8	248.5	211 092	132.0	10 514	5.6	1 599
1986	1 491 579	7.5	149.2	257 812	134.7	11 077	5.4	1 915
1987	1 544 232	3.5	206.2	282 357	137.3	11 250	1.6	2 057
1988	1 543 305	-0.1	628.0	305 707	139.8	11 038	-1.9	2 186
1989	1 592 074	3.2	1 304.4	415 916	142.3	11 188	1.4	2 923
1990	1 522 819	-4.3	2 737.0	469 318	146.6	10 388	-7.1	3 202
1991	1 538 504	1.0	416.7	405 679	149.1	10 319	-0.7	2 721
1992	1 530 141	-0.5	969.0	387 295	151.5	10 097	-2.2	2 556
1993	1 605 496	4.9	1 996.1	429 685	154.0	10 426	3.3	2 790
1994	1 699 464	5.9	2 240.2	543 087	156.4	10 864	4.2	3 472
1995	1 771 246	4.2	93.9	770 350	158.9	11 149	2.6	4 849
1996	1 809 337	2.2	17.1	840 268	161.3	11 216	0.6	5 209
1997	1 870 407	3.4	7.6	871 274	163.8	11 420	1.8	5 320
1998	1 871 068	0.0	4.2	843 985	166.3	11 254	-1.5	5 077
1999	1 875 822	0.3	8.5	586 777	168.8	11 116	-1.2	3 477
2000	1 956 599	4.3	6.2	644 984	171.3	11 423	2.8	3 766
2001	1 982 291	1.3	9.0	553 771	173.8	11 404	-0.2	3 186
2002	2 034 982	2.7	10.6	504 359	176.4	11 537	1.2	2 859
2003	2 058 316	1.1	13.7	553 603	179.0	11 500	-0.3	3 093
2004	2 175 893	5.7	8.0	663 783	181.6	11 983	4.2	3 655
2005	2 239 941	2.9	7.5	882 729	184.2	12 161	1.5	4 793
2006	2 322 818	3.7	4.3	1 067 325	186.8	12 437	2.3	5 715

Source: IBGE

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

The less favorable second quarter situation resulting in a 0.5% decrease in GDP for the period. Industrial sector output dropped 1.7%, while the farm sector and service sector posted respective growth rates of 0.04% and 0.1%.

**Table 1.2 – GDP – Quarterly growth/previous quarter – Seasonally adjusted**

Itemization	2006			
	I	II	III	IV
GDP at market prices	1.6	-0.5	2.6	0.9
Crop and livestock sector	2.2	0.0	7.6	-1.5
Industrial sector	1.0	-1.7	3.1	1.2
Service sector	1.7	0.1	1.1	0.9

Source: IBGE

In the third quarter of the year, GDP showed vigorous recovery. The 2.6% increase registered in the period reflected growth in the crop/livestock sector, 7.6%; industry, 3.1%; and services, 1.1%. The recovery process that began in that quarter continued into the subsequent period, albeit at a lesser pace, as GDP expanded 0.9%. The major element underlying this performance was a reduction of 1.5% in crop/livestock sector production, impacted mainly by the wheat crop; coupled with increases of 1.2% in the industrial sector and 0.9% under services.

Once again, a sectoral analysis of GDP in 2006 indicated that the growth process had disseminated into other areas of the economy. Crop/livestock activity expanded 4.1% in the year, the 16th consecutive year of positive growth, with 3.6% expansion in grain output resulting from an 8.4% gain in productivity and a 4.4% cutback in the area under cultivation.

Industrial sector growth reached 2.8% in 2006, once again reflecting positive performances in all of the various subsectors. Manufacturing expanded 1.6% in the year, with output growth in all of the different use categories, but particularly under consumer durables and capital goods. For the third consecutive year, the building industry expanded 4.6%, while production and distribution of electricity, gas and water increased 3.3%. Furthermore, it is important to stress 6% expansion in the mining industry, achieved basically through increased output of iron ore, 10.9%, and petroleum, 5.6%.

The service sector expanded 3.7% in 2006, reflecting positive performances in all of the various segments, with emphasis on financial institutions, 6.1%; commerce, 4.8%; real estate activities and rentals, 4.3%; transportation, storage and postal services, 3.2%; and education and public health services, 3.1%.

**Table 1.3 – GDP real change rates – Under the prism of production**

Percentage			
Itemization	2004	2005	2006
GDP	5.7	2.9	3.7
Crop and livestock sector	2.3	1.0	4.1
Industrial sector	7.9	2.2	2.8
Mineral extraction	4.3	9.8	6.0
Manufacturing	8.5	1.1	1.6
Building	6.6	1.2	4.6
Production and distribution of electricity, gas and water supply	8.4	5.0	3.6
Service sector	5.0	3.4	3.7
Commerce	7.5	3.5	4.8
Transportation, storage and postal services	5.9	4.3	3.2
Information services	5.5	4.3	2.3
Financial intermediation, insurance, complementary pension system and related services	3.7	6.5	6.1
Other services	5.4	3.4	2.6
Real estate activities and rent	3.9	4.1	4.3
Public administration, health and education	3.8	1.0	3.1

Source: IBGE

Viewed under the prism of demand, analysis of GDP shows internal market recovery, contributing 4.8 p.p. to annual product growth, against -1.4 p.p. for the external sector. Strengthening of the internal market reflects the benign macroeconomic scenario, as reflected in rising real income, expanding credit and improved expectations. In this framework, household consumption expanded 4.3%; and government consumption increased 3.6%, while investments rose 8.7%. Exports continued on the growth trajectory begun in 1996 and expanded 4.6% in the year, while imports moved upward 18.1%, in response to the uptick in the pace of economic activity as a whole.

**Table 1.4 – GDP real change rates – Under the prism of expenditure**

Percentage			
Itemization	2004	2005	2006
GDP	5.7	2.9	3.7
Family consumption	3.8	4.7	4.3
Government consumption	4.1	1.9	3.6
Gross Fixed Capital Formation	9.1	3.6	8.7
Exports of goods and services	15.3	10.1	4.6
Imports of goods and services	14.4	9.3	18.1

Source: IBGE

**Table 1.5 – Gross Domestic Product – At current value**

In R\$ million

Itemization	2003	2004	2005	2006
Gross Domestic Product at market prices	1 699 948	1 941 498	2 147 944	2 322 818
Under the prism of production				
Crop and livestock sector	108 619	115 194	104 556	102 891
Industrial sector	409 504	501 771	561 807	617 965
Service sector	952 491	1 049 293	1 185 159	1 278 771
Under the prism of expenditure				
Final consumption expenditure	1 382 355	1 533 895	1 727 168	1 865 142
Family consumption	1 052 759	1 160 611	1 296 467	1 402 135
Government consumption	329 596	373 284	430 701	463 007
Gross Capital Formation	268 095	332 333	343 600	389 428
Gross Fixed Capital Formation	259 714	312 516	349 463	390 134
Changes in inventories	8 381	19 817	-5 863	-706
Exports of goods and services	254 770	318 892	324 949	340 409
Imports of goods and services (-)	205 272	243 622	247 773	272 160

Source: IBGE

**Table 1.6 – Gross capital formation (GCF)**

Percentage

Year	Share in GCF			Changes in inventories	At current prices	
	Gross Fixed Capital Formation (GFCF)				GFCF/GDP	GCF/GDP
	Building	Machines and equipments	Others			
1995	44.5	48.9	8.3	-1.6	18.3	18.0
1996	48.2	43.5	7.3	1.0	16.9	17.0
1997	49.5	43.1	7.0	0.3	17.4	17.4
1998	51.9	40.8	6.9	0.3	17.0	17.0
1999	50.6	37.2	7.8	4.4	15.7	16.4
2000	45.7	39.3	7.1	7.9	16.8	18.3
2001	43.9	43.3	7.3	5.5	17.0	18.0
2002	47.8	44.8	8.5	-1.2	16.4	16.2
2003	42.8	45.3	8.7	3.1	15.3	15.8
2004	41.1	45.0	7.9	6.0	16.1	17.1
2005	44.2	49.2	8.3	-1.7	16.3	16.0
2006	...	...	...	...	16.8	16.8

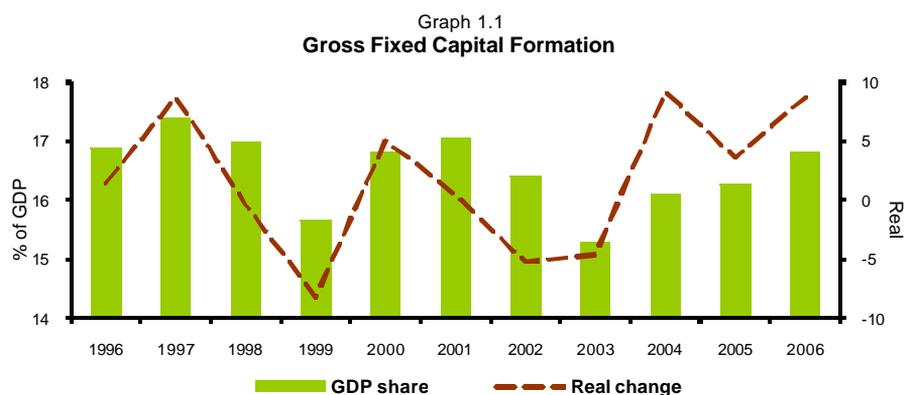
Source: IBGE

## Investments

According to IBGE's National Quarterly Accounts, the 8.7% increase in Gross Capital Formation (GCF), the third consecutive positive annual result, reflected positive performances on the part of building industry inputs and capital goods

production. This pace of growth was more than double that of GDP, and clearly aided in raising the participation of GFCF in GDP from 16.3% in 2005 to 16.8% in 2006.

Production of building industry inputs expanded 4.5% in 2006, against 1.3% in the previous year. This acceleration reflected the performance of the building industry, clearly compatible with the improved macroeconomic environment. Output of capital goods, another important investment indicator, increased 5.7%, compared to 3.6% in 2005. Based on seasonally adjusted data, this growth was particularly strong in the second half of the year, when expansion came to 5.5% compared to the previous half-year period.



Source: IBGE

**Table 1.7 – Selected capital goods production**

Itemization	Percentage change		
	2004	2005	2006
Capital goods	19.7	3.6	5.7
Industrial	18.1	-2.2	5.3
Serial	20.2	-2.2	5.1
On an order basis	-6.6	10.4	6.9
Agricultural	6.4	-37.7	-16.5
Agricultural parts	-7.5	-69.0	-38.9
Building	38.0	32.0	8.2
Electric energy	12.5	28.5	22.2
Transportation	25.6	6.6	-1.6
Mixed	14.8	3.4	11.6

Source: IBGE

Capital goods production registered across-the-board growth in all segments, with the exception of transportation equipment and those closely associated to the crop/livestock sector. In this framework, production of parts and farm machines and equipment diminished 38.9% and 16.5%, respectively, reflecting the income decline that occurred in the agricultural sector. In the opposite sense,

output of capital goods targeted to the sectors of electricity, construction and industry expanded 22.2%, 8.2% and 5.3%, respectively. It is important to highlight that, in the final quarter of 2006, there was a significant increase at the margin in the output of goods targeted to the industrial sector, with growth of 5.2% over the previous period, based on seasonally adjusted data.

To some extent, the performance of industry was associated to downward movement in the Long-Term Interest Rate (TJLP), which is utilized as the indexing factor for financing contracted with the National Bank of Economic and Social Development (BNDES). This index declined 2.9 p.p. in 2006, closing the year at 6.85%. It should be emphasized that the change in the TJLP resulted from reductions in all quarters of the year.

## Industrial output indicators

In 2006, according to IBGE's Monthly Industrial Survey – Physical Production (PIM-PF), industrial production expanded 2.8% in 2006, reflecting combined growth of 7.4% under mining and 2.6% in manufacturing. The evolution of industrial output in the different quarters of 2006 was relatively homogeneous, with positive growth results in all quarters, when compared both to the previous quarter and to the corresponding quarter of 2005.

**Table 1.8 – BNDES disbursements<sup>1/</sup>**

In R\$ million			
Itemization	2004	2005	2006
Total	39 834	46 980	51 318
By sector			
Manufacturing industry	15 539	23 104	25 734
Commerce and service	17 122	19 479	20 704
Crop and livestock	6 930	4 059	3 423
Extraction industry	243	338	1 458

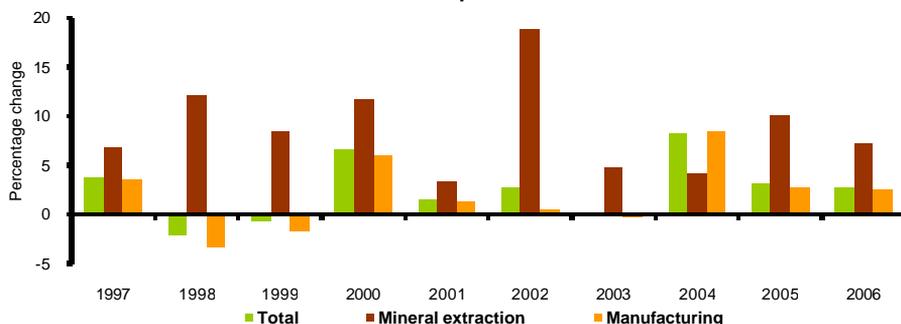
Source: BNDES

<sup>1/</sup> It includes BNDES, Finame and BNDESpar.

Iron ore mining expanded 10.9% in the year, and represented the major factor underlying industrial growth. Oil and natural gas extraction posted cumulative growth of 5.1% in 2006, stressing that new oil drilling platforms were inaugurated during the course of the year, expanding the sector's productive capacity, with highly positive impacts on potential short-term supply.

The performance of manufacturing reflected increases in the production of office machinery and computer equipment, 51.6%; medical-hospital, optical and other instruments, 9.4%; electric machines, apparatuses and equipment, 8.7%; and furniture, 8.4%; while the segments of wood, apparel and accessories, and footwear and leather products registered declines of 6.8%, 5% and 2.7%, respectively.

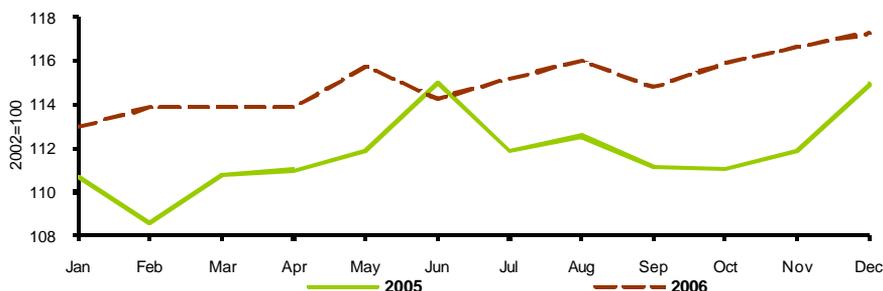
Graph 1.2  
Industrial production



Source: IBGE

Annual industrial activity growth in 2006 was led by the categories of consumer durables and capital goods, with respective growth rates of 5.8% and 5.7%. With respect to capital goods output, emphasis should be given to the performance of the sectors of office machines and computer equipment, as well as electric machines, apparatuses and equipment. Parallel to this, production of this category targeted to the electrical energy sector expanded 22.2%, while that channeled to agriculture declined 16.9%, clearly reflecting the falloff in farm income and a 26.9% drop in exports of farm machinery in 2006.

Graph 1.3  
Industrial production  
Seasonally adjusted data

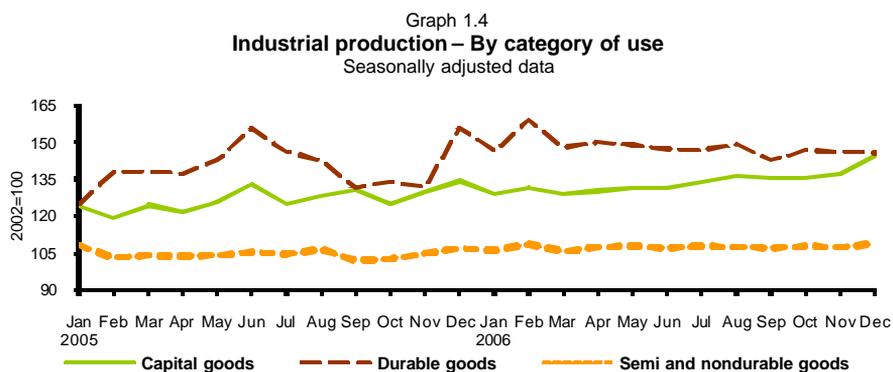


Source: IBGE

With the good performance achieved by mining, output of intermediate goods expanded 2.1% in the year, despite reductions of 6.3% in the output of metal products and 1% under other chemical products. Production of semi-durable and

nondurable consumer goods increased 2.7% in 2005, with emphasis on growth in the segments of beverages, 7.7%; oil refining and alcohol production, 6%; tobacco, 5.3%; and pharmaceuticals, 5.1%.

Among the 27 activities surveyed by the IBGE, 20 registered positive growth in 2006, indicating a more homogeneous process of industrial growth than in the preceding year, when a total of 17 industrial activities posted positive growth results. Nonetheless, industrial growth was heavily concentrated, as is evident in the fact that just eight activities<sup>1</sup> accounting for 40% of the Brazilian industrial structure were responsible for approximately 80% of annual growth in industrial output. The other 12 activities that posted positive growth during the year made a much more modest contribution to expansion of the industrial sector in general, while output of electronic equipment, communications devices and equipment remained stable. The six activities that registered negative growth in 2006 were responsible for a reduction of 0.3 p.p. in the annual rate of industrial output growth.



In 2006, agribusiness expanded 1.6%, compared to a 1% reduction in the previous year. Though climatic conditions were more favorable and, therefore, contributed more significantly to the performance of agriculture-related sectors, such other factors as exchange appreciation, the end of the import tax on pesticides, together with animal health problems in the cattle sector, were determining factors underlying the reductions registered in segments associated to livestock farming, especially the grouping of insecticides, herbicides and other products designed for farm use.

According to the National Association of Automotive Vehicle Manufacturers (Anfavea), production of the automobile sector reached 2.6 million units in

<sup>1</sup>/ Office machines and informatics equipment; mining; machinery and equipment; electric apparatuses and machines; food; beverages; basic metallurgy and pharmaceuticals.

2006, up 3.3% over the previous year, while production of farm machines fell 12.9%. Overall sales of automotive vehicles expanded 5.1% in the year, registering growth of 11.1% in internal sales and a 5.8% decline in sales targeted to the foreign market.

**Table 1.9 – Industrial production**

Itemization	Percentage change		
	2004	2005	2006
Total	8.3	3.1	2.8
By category of use			
Capital goods	19.7	3.6	5.7
Intermediate goods	7.4	0.9	2.1
Consumer goods	7.3	6.0	3.4
Durable	21.8	11.4	5.8
Semi and nondurable	4.0	4.6	2.7

Source: IBGE

With regard to regional performances of industrial output, it is important to note 14.2% annual growth in the state of Pará, led by products typical of the export sector. Industries in the state of Ceará, driven by the sectors of textiles, chemical products and electric machines, apparatuses and equipment, together with those of Espírito Santo, the site of dynamic activity in the segments of petroleum production and food and beverage output, turned in the second and third best performances of the year, with respective rates of 8.2% and 7.6%. Industries from the states of Pernambuco, 4.8%, Minas Gerais, 4.5%, Bahia, 3.2%, and São Paulo, 3.2%, registered annual growth rates above the national average, while those located in the states of Goiás, Rio de Janeiro and Santa Catarina ended the year with respective rates of 2.4%, 1.9% and 0.2%.

Moving in the opposite direction, production in the state of Amazonas dropped 2.2%, followed by the states of Rio Grande do Sul, 2%, and Paraná, 1.6%. The decline in the production of cell telephones and radios, chemical products and oil refining and alcohol production were the major factors underlying the negative results registered in Amazonas, while the performance of industry in Rio Grande do Sul reflected a reduced pace of activity in the segments of machines and equipment, metal products and leather and footwear articles. In the state of Paraná, the result was generated by a negative performance in the sector of automotive vehicles, to some extent provoked by strikes that occurred in the industry during the month of September.

According to the National Confederation of Industry (CNI), real industrial sales expanded 1.7% in 2006. In a context of exchange appreciation, it should be stressed that these indicators should be viewed with caution, since real sales may

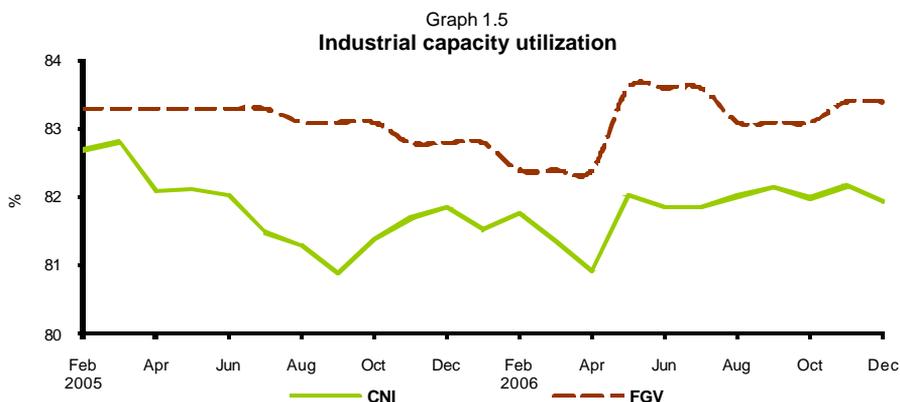
have been underestimated, considering that, on being converted into real, the value of the share channeled to the export market will, for the most part, reflect exchange variation. In relation to labor market indicators in the industrial sector, CNI registered increases of 2.2% in the employment level and 1.8% in hours worked.

According to the Foreign Trade Studies Center Foundation (Funcex), the volume of exports of semi and manufactured goods showed growth of 3.5% and 2.1%, respectively, in 2006. This performance was more modest than in previous years, as evident in the fact that the corresponding rates in 2005 were 6.3% and 11%; and in 2004, 7.2% and 26.1%, respectively, and, to some extent, reflected the trajectory of exchange rate appreciation that occurred as of the second half of 2003.

As measured by the CNI, the average level of Utilization of Installed Capacity (UIC) reached 81.8% in 2006, remaining at the previous year's level. In the same sense, data released by the Getulio Vargas Foundation (FGV) indicated a marginal reduction in UIC from 83.5% in 2005 to 83.3% in 2006. These results suggested the existence of a low level of risk of inflationary pressures consequent upon supply shortages over the short-term.

A breakdown of FGV's UIC according to use categories shows increases of 3.3 p.p. and 0.6 p.p. in the level of utilization of installed capacity in the building materials industry and capital goods industry, respectively. On the other hand, reductions of 0.9 p.p. and the 0.2 p.p. occurred in the consumer goods and intermediate goods industries, in that order.

The evolution of industrial production in 2006 was consistent with expectations regarding the level of economic activity as released in the November 2005 Manufacturing Industry Survey – Special Questions, carried out by the FGV. As released in November 2006, expectations for 2007 are considerably more



favorable than in the previous year and suggest continuation of the growth process under way in the industrial sector.

**Table 1.10 – Industrial capacity utilization <sup>1/</sup>**

Percentage			
Itemization	2004	2005	2006
Manufacturing industry	82.4	83.5	83.3
Consumer goods	78.4	81.2	80.1
Capital goods	79.3	81.4	82.0
Building material	82.3	81.8	85.1
Intermediate goods	87.3	87.5	87.3

Source: FGV

<sup>1/</sup> Quarterly survey. Average in the year.

## Commerce indicators

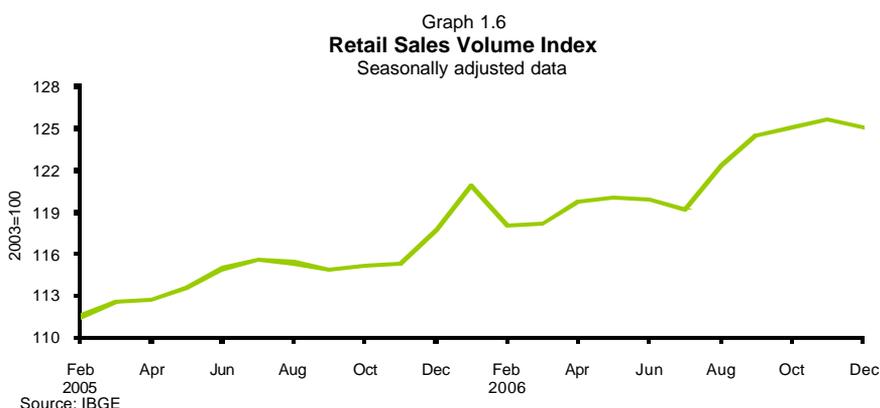
Retail activity indicators showed positive results in 2006. According to the Monthly Retail Trade Survey (PMC), released by the IBGE, the Retail Sales Volume Index expanded 6.2% in 2006 and continued the trend toward annual growth initiated in 2004. Just as occurred in the previous year, sales registered across-the-board growth with the exception of fuels and lubricants, which declined 8% in the year. Sales in the segments of furniture and home appliances and hypermarkets, supermarkets, food and beverage products and tobacco expanded 10.3% and 7.6%, respectively, while those involving automobiles, motorcycles, parts and spares, and building materials, which are not included in the restricted index, expanded 7.2% and 4.7%, respectively. The Expanded Retail Sales Volume Index, which incorporates these two segments, expanded 6.4% in the year.

Retail sales increased in 26 states, posting negative growth only in Mato Grosso, 9.9%, as a consequence of income losses in the crop/livestock sector. The strongest increases occurred in Roraima, 30.1%; Acre, 27.5%; Amapá, 23.6%; Alagoas, 18.7%; and Tocantins, 17.5%, the states in which federal government assistance programs have had their greatest impact on the population's income.

Nominal Sales Revenues expanded 7.3% in 2006, resulting from increases of 6.2% in the volume of sales and 1% in the prices of tradables at the retail level. In all segments of the retail trade sector, except fuels and lubricants, annual growth in nominal revenues was greater than average growth of 4.2% in the Extended National Consumer Price Index (IPCA), which is calculated by IBGE. In this context, particular mention should be made of vehicles, motorcycles, parts and spares, 7.6%; furniture and home appliances, 7.3%; and fabrics, apparel and footwear, 7.2%.

Statistics released by the São Paulo Trade Association (ACSP) on the number of consultations with the Credit Protection Service Center (SCPC) and the Usecheque system corroborated the growth trend in retail sales. These indicators rose 3.3% and 5.6%, respectively, compared to 2005.

The 2006 increase in default levels was compatible with expanding sales, just as had occurred in the preceding year. The indicator that measures the ratio between checks returned due to insufficient backing and total checks cleared increased 6.5% nationwide during the year, while defaults in the São Paulo Metropolitan Region (RMSP), measured by the ACSP, climbed to 5.3%, compared to 5% in 2005.



The results of the survey that evaluates consumer expectations suggest that retail sales will continue expanding in 2007. The Consumer Confidence Index (ICC), released by the Trade Federation of the State of São Paulo (Fecomercio SP), registered growth of 10.4% in the final quarter of 2006, compared to the corresponding period of the previous year. This result was a consequence of increases of 7.9% in the Current Economic Conditions Index (Icea), which accounts for 40% of the general index, and 12% of the Consumer Expectations Index (IEC).

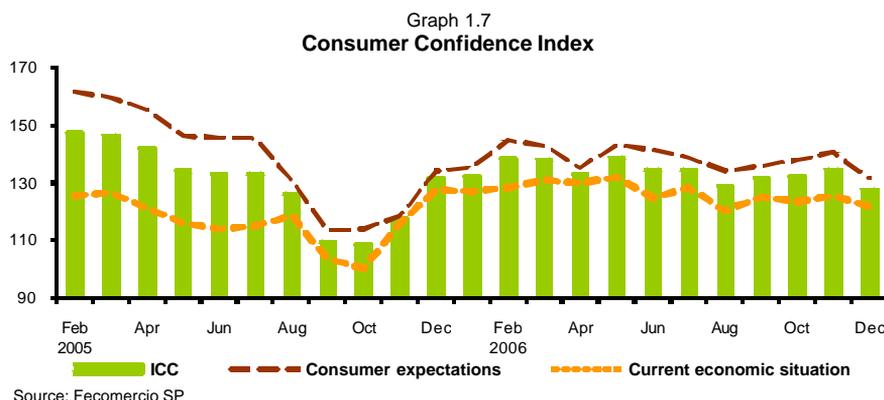
The National Confidence Index (INC), which is released by the ACSP, reached 140.8 points in December 2006 on a scale that extends from zero (absolute pessimism) to 200 (absolute optimism) and surpassed the corresponding result in 2005 by 20.7%. The INC posted growth in all regions of the country, particularly in the North/Central West, 26.8%, and the Southeast, 23.5%.

## Crop/livestock production indicators

According to IBGE's Systematic Farm Production Survey (LSPA), the 2006 grain harvest reached 116.6 million tons. Annual growth of 3.6% reflected a 4.4% cutback in the area under cultivation and growth of 8.4% in average productivity.

Production in the southern region expanded 24.4% and that of the Central West declined 6.4%, accounting for respective levels of approximately 41.4% and 34% of the total national harvest.

National soybean output closed at 52.2 million tons, up 2.1% in annual terms. Average yield expanded 6.7%, while the area under cultivation dropped 4.3%, reflecting the impact of the drought that marked the early part of the year, coupled with the excessive rainfall that fell during the harvest. These phenomena gave rise to outbreaks of fungi, such as Asian rust, in important producer regions.



The corn harvest totaled 42.5 million tons, for growth of 21% in the year. The area under cultivation expanded 9.2%, while average productivity increased 10.2%, clearly evincing the excellent performance of the crop in the southern region of the country, particularly during the first harvest.

Rice production declined 13% in 2006 and closed at 11.5 million tons. This result was a consequence of a 24.2% reduction in the area harvested, reflecting both unattractive market prices and 14.8% growth in average productivity.

The wheat harvest totaled 2.4 million tons. The annual reduction of 49.1% resulted from cutbacks in the area harvested, 34.6%, and average productivity, 22.1%. This performance reflected both unattractive prices at the producer level and difficulties experienced during marketing of recent harvests, particularly as a result of insufficient funding and climatic adversities in the major producer regions.

In 2006, the bean harvest expanded 13.1% and totaled 3.4 million tons, with increases of 7% in the area harvested and 5.6% in average productivity. Production during the first harvest (rainy season harvest) and the second harvest increased 11.2% and 26%, respectively, with growth of 4.2% and 12.6% in the area harvested, and 6.8% and 11.9% in average productivity, following the same order.

Coffee production reached 2.6 million tons, up 21.2% in the year. The area harvested remained practically unaltered, and average productivity increased 20.8%, primarily as a result of the biannual nature of the crop (full harvest year) and favorable climatic conditions, together with attractive international market commodity prices. Taken together, these factors encouraged investments in this activity.

**Table 1.11 – Agricultural production – Major crops**

Million tons		
Products	2005	2006
Grain production	112.6	116.6
Cotton seed	2.3	1.8
Rice (in husk)	13.2	11.5
Beans	3.0	3.4
Corn	35.1	42.5
Soybeans	51.1	52.2
Wheat	4.7	2.4
Others	3.1	2.8
Change in grain production (%)	-5.6	3.6
Other crops		
Bananas	6.8	6.9
White potatoes	3.1	3.1
Cocoa (beans)	0.2	0.2
Coffee (manufactured)	2.1	2.6
Sugarcane	422.9	458.0
Tobacco (in leaf)	0.9	0.9
Oranges	17.9	18.1
Cassava	25.7	26.7
Tomatoes	3.4	3.3

Source: IBGE

The sugarcane harvest turned in growth of 8.3% in 2006, with a total of 458 million tons. Average yield and area planted increased 1.4% and 6.8%, respectively, driven by the evolution of international sugar prices and by growing demand for fuel alcohol.

**Table 1.12 – Agricultural production, harvested area and average earnings – Major crops**

Percentage change						
Products	Production		Area		Average earnings	
	2005	2006	2005	2006	2005	2006
Grain production	-5.6	3.6	1.2	-4.4	-6.8	8.4
Cotton (seed)	-3.4	-21.3	9.2	-28.6	-10.1	10.2
Rice (in husk)	-0.4	-13.0	5.0	-24.2	-5.1	14.8
Beans	1.6	13.1	-4.9	7.0	6.8	5.6
Corn	-16.0	21.0	-6.6	9.2	-10.6	10.2
Soybeans	3.3	2.1	6.5	-4.3	-3.0	6.7
Wheat	-18.6	-49.1	-15.5	-34.6	-2.6	-22.1

Source: IBGE

## Livestock

According to the Quarterly Survey of Animal Slaughters, calculated by IBGE, beef production totaled 6.9 million tons in 2006, for growth of 8.1% compared to the previous year. Poultry output totaled 8.1 million tons, with 2.3 million tons of pork, reflecting respective annual increases of 3.4% and 6.6%.

**Table 1.13 – Grain stock – Major crops**

Thousand tons			
Products	2003/2004	2004/2005	2005/2006
Grain production			
Rice (in husk)			
Beginning of the year	332.7	1 507.2	2 183.2
End of the year	1 507.2	2 183.2	1 112.4
Beans			
Beginning of the year	264.5	169.7	113.6
End of the year	169.7	113.6	355.3
Corn			
Beginning of the year	8 553.6	7 801.7	3 235.4
End of the year	7 801.7	3 235.4	3 417.6
Soybeans			
Beginning of the year	4 255.0	4 135.2	2 030.1
End of the year	4 135.2	2 030.1	1 144.0
Wheat			
Beginning of the year	399.5	412.0	1 234.1
End of the year	412.0	1 234.1	497.4

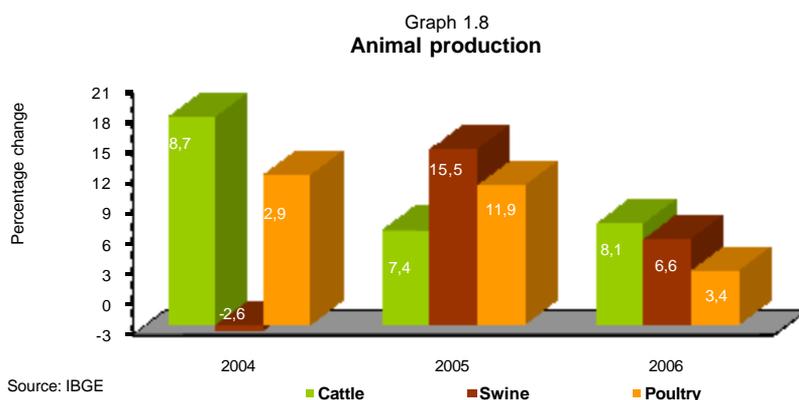
Source: Companhia Nacional de Abastecimento (Conab)

According to the Foreign Trade Secretariat (Secex), subordinated to the Ministry of Development, Industry and Foreign Trade (MDIC), beef exports reached 1.2 million tons, up 12.9% compared to 2005. Foreign sales of poultry and pork totaled 2.6 million tons and 484.2 thousand tons, respectively, reflecting reductions of 6.4% and 16.4% compared to 2005.

## Agricultural policy

According to the Agriculture and Livestock Plan (PAP) 2006/2007, released by the Ministry of Agriculture, Livestock and Supply (Mapa), the availability of resources for rural credit totaled R\$60 billion, representing 12% growth compared to the previous agricultural year. Of this total, R\$50 billion were targeted to commercial agriculture and R\$10 billion to family farming.

In the case of commercial agriculture, the resources targeted to current expenditures and product marketing totaled R\$41.4 billion, 25% more than in the previous plan. Of this total, R\$30.1 billion involved resources granted at regulated rates of interest and R\$11.3 billion were granted at market interest rates. Credits targeted to investments added up to R\$8.6 billion, for growth of 23% compared to 2005. Of this total, R\$6.4 billion are expected to meet the needs of programs financed with BNDES resources, reflecting an annual reduction of 30.1%.



In the context of BNDES programs, it is important to mention the inclusion of a line of credit for the financing of used farm machinery in the Program of Modernization of the Farm Tractor Fleet and Like Implements and Harvesters (Moderfrota), together with a cutback in the interest rates applied to this program and to operations through the Special Industrial Financing Agency – Agriculture. At the same time, a specific investment credit line was included in the Crop/Livestock Integration Program (Prolapec), with the objective of supporting implementation of projects aimed at creating integrated systems of crop/livestock farming, with total funding of R\$200 million.

One should further stress that the PAP 2006/2007 also foresaw maintenance of the floor price policy of the major farm products, together with expansion of new agribusiness securities and the rural insurance program.

## Productivity

Industrial productivity, defined as the ratio between the index of physical production of the sector, announced by IBGE, and the indicator of hours worked in production, made available by the CNI, increased 0.7% in 2006, compared to a reduction of 1.9% in the previous year. Reductions occurred in seven of the 12 states surveyed, with 5.3% in Amazonas, 3.6% in Rio de Janeiro, 3.1% in Paraná and 2.8% in Bahia, while the most representative growth occurred in Ceará, 8%; Espírito Santo, 7.5%; and Minas Gerais, 5%.

Average productivity of the farm sector, understood as the ratio between grain production and area under cultivation, expanded 8.4%. To some extent, this result reflected growth of 3.1% in total demand for agricultural fertilizers which, according to the National Association for Fertilizer Dissemination (Anda), declined 19.5% in the previous year. Another factor that contributed to the rise in productivity was the performance of internal sales of farm machinery, driven mainly by 15.3% growth in sales of wheeled tractors, according to data released by Anfavea. Sales of planters and harvesters dropped 21.4% in the year.

## Energy

In 2006, according to the National Petroleum Agency (ANP), oil production, including Liquefied Natural Gas (LNG), expanded 5.6%, compared to 11.3% in the previous year. This result represented the 14th production increase since 1992, with the only decline (0.9%) occurring in 2004. Production totaled 1,809,000 barrels/day, compared to 1,712,000 barrels/day in 2005, closing with the highest daily level of 1,875,000 barrels in December, and the smallest, with 1,716,000 barrels in the month of June. Production of natural gas expanded 0.04% in 2006 and reached 305,000 barrels per day.

Total oil processed at refineries in 2006 increased 0.4%, closing with a total of 1,705,000 barrels per day, reflecting an increase of 0.3 p.p. in the participation of national petroleum, closing at 78.8%. Oil imports increased 0.9% in the year and totaled 358,400 barrels/day, while exports expanded 34%, reaching a level of 366,500 barrels per day, indicating an increase in the production of heavy oil, which Brazilian refineries are not equipped to process in sufficient quantity.

Sales of oil derivatives on the internal market dropped 1.4% in 2006, registering increases in the segments of gasoline, 7.1%; Liquefied Petroleum Gas (LPG), 1.4%; and aviation kerosene, 0.8%. In the opposite sense, sales of aviation gasoline dropped 6.7%; and those of diesel oil fell 6.2%; while fuel oil sales fell

2.2%. Overall consumption of alcohol increased 5.2%, resulting from a 29.2% rise in sales of hydrated alcohol and a 13.7% drop in sales of anhydrous alcohol, which is mixed into the country's gasoline supply. Sales of automobiles utilizing biofuel technology once more played an important role in the increase in alcohol consumption.

**Table 1.14 – Apparent consumption of oil derivatives and fuel alcohol**

Daily average (1,000 b/d)			
Itemization	2004	2005	2006
Petroleum	1 338	1 347	1 328
Fuel oil	93	90	88
Gasoline	295	304	326
Diesel oil	674	674	632
Liquid gas	201	200	203
Other derivatives	75	78	79
Fuel alcohol	173	182	191
Anhydrous	98	101	88
Hydrated	75	80	104

Source: ANP

According to the Energy Research Company (EPE), which is subordinated to the Ministry of Mines and Energy (MME), national consumption of electrical energy expanded 3.4% in 2006, for growth of 4.4% in the commercial segment, 3.8% in the residential segment and 2.7% in industry. Consumption of other unlisted segments, including public lighting, public services and the rural sector, expanded 3.7%.

**Table 1.15 – Electric energy consumption<sup>1/</sup>**

GWh			
Itemization	2004	2005	2006
Total	317 425	335 905	347 322
By sectors			
Commercial	49 606	52 979	55 312
Residential	78 462	82 722	85 881
Industrial	142 318	150 243	154 315
Other	47 039	49 961	51 814

Source: EPE

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

## Employment indicators

Even with the reduced dynamics of the two previous years, the labor market turned in positive results in 2006, with growth in formal employment and recovery in

income levels. The job level continued expanding, though job creation was not sufficient to meet demand, and this was the factor primarily responsible for the slight increase in average unemployment during the year.

According to IBGE's Monthly Employment Survey (PME), which incorporates the metropolitan regions of São Paulo, Rio de Janeiro, Belo Horizonte, Porto Alegre, Salvador and Recife, the average rate of unemployment reached 10% in 2006, surpassing the 2005 level by 0.2 p.p. This result indicated growth of 2.4% in the overall labor force and 2.3% in the number of persons holding jobs, compared to 1.1% and 3%, respectively, in 2005. It should be stressed that the increase in the total labor force was a consequence of both rising demand for jobs during the election period and, particularly, reductions in the number of jobless people, which is characteristic of periods of renewed economic activity and real income gains.

Analyzed under the prism of employment categories and repeating what occurred in the previous year, the sharpest employment growth was registered in the formal sector of the market. Growth of 4.8% in the year contributed to a rise in the number of duly registered employees in the total number of jobholders from 44.3% in early 2005 to 46.1% at the end of 2006. At the same time, the number of self-employed persons expanded 1% in the year, while the overall number of unregistered workers moved in the opposite direction, registering a decline of 0.9%, with the number of employers dropping 1.5%.

The Employment and Unemployment Survey (PED), which is carried out by the State Data Analysis System Foundation (Seade) and the Interunion Department of Statistics and Socioeconomic Studies (Dieese), showed a reduction of 1 p.p. in the 2006 unemployment rate in the Metropolitan Region of São Paulo, dropping to a level of 15.9%. Hidden unemployment resulting from a high level of precarious labor conditions declined 0.9 p.p. to 3.9%, while open unemployment diminished 0.1 p.p., dropping to a level of 10.4%.

According to the Ministry of Labor and Employment's (MTE) nationwide General File of Employed and Unemployed Persons (Caged), 1,229,000 jobs were created in 2006, against 1,254,000 in 2005 and 1,523,000 in 2004. The largest number of jobs was created in the service sector, 522,000 openings, followed by commerce and manufacturing, with 337,000 and 250,000 new jobs, respectively. It should be stressed that, just as occurred in 2005, the highest rate of job growth occurred in the building industry, with 7.3%, reflecting creation of 86,000 new positions.

Calculated by the CNI in 12 states (Amazonas, Ceará, Pernambuco, Bahia, Goiás, Espírito Santo, Minas Gerais, Rio de Janeiro, São Paulo, Paraná, Santa Catarina

and Rio Grande do Sul), industrial employment expanded 2.2% in 2006, compared to 5.2% in 2005 and 4% in 2004.

**Table 1.16 – Formal employment – Job openings**

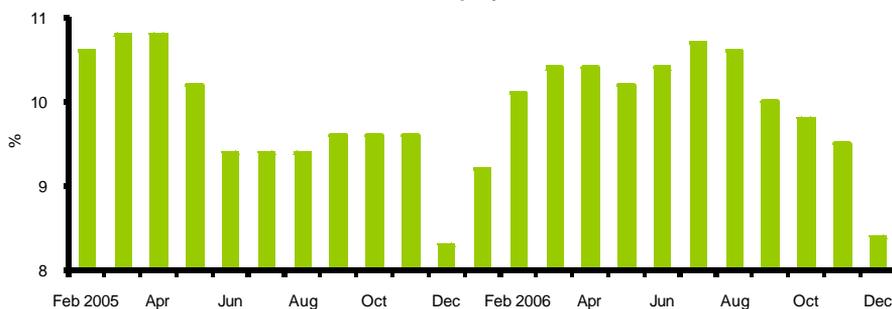
1,000 employees

Itemization	2004	2005	2006
Total	1 523.3	1 254.0	1 228.7
By sectors			
Manufacturing industry	504.9	177.5	250.2
Commerce	403.9	389.8	336.8
Services	470.1	569.7	588.6
Building	50.8	85.1	85.8
Crop and livestock	79.3	-12.9	6.6
Public utilities	4.6	13.5	7.4
Others <sup>1/</sup>	9.7	31.2	-46.6

Source: Ministry of Labor and Employment (MTE)

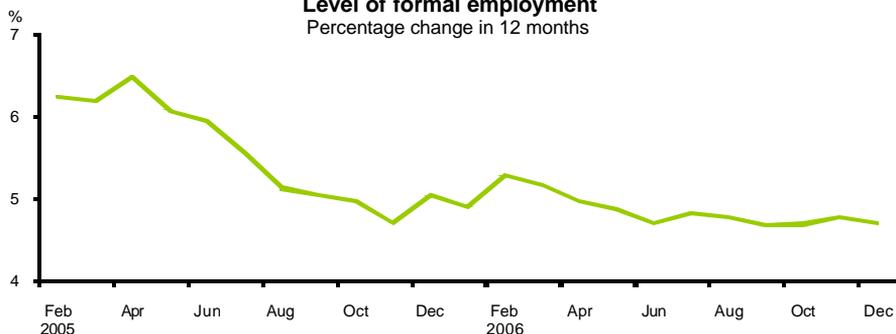
<sup>1/</sup> It includes mineral extraction, public administration and others.

Graph 1.9  
**Median unemployment rate**



Source: IBGE

Graph 1.10  
**Level of formal employment**  
Percentage change in 12 months



## Wage and earnings indicators

The average real earnings habitually received by the working population in the six major metropolitan regions covered by IBGE's PME reached R\$1,045.75 in 2006, up 4.3% over the previous year. In the metropolitan regions of Recife and São Paulo, the increase was greater than 5%.

Gains in purchasing power were registered in all of the different job categories, with 5% for the self-employed, 4% for unregistered workers and 3.8% for registered workers. Overall wages of jobholders expanded 6.7% in the year, as a result of increases of 4.3% in earnings and 2.3% in employment.

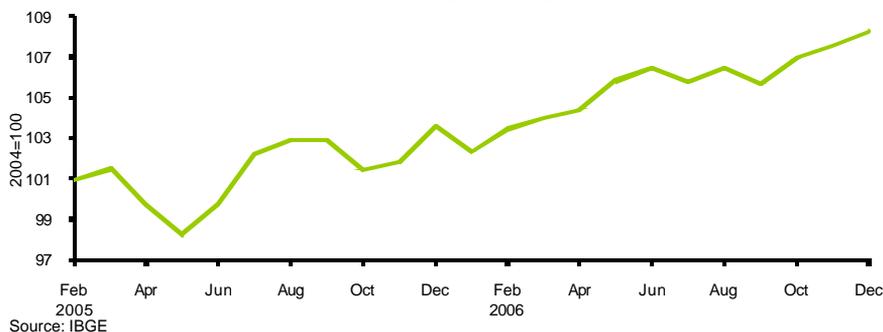
According to the PED, which is elaborated by Seade/Dieese, the average real earnings of persons employed in the São Paulo Metropolitan Region increased to 1.3% in 2006, following a 0.4% drop in 2005. Real overall earnings of jobholders increased 3.3%, a figure that also reflects 2% growth in the employment level.

## Price indicators

Inflation declined in 2006 when compared to the preceding year, in a framework of deceleration under both regulated and market prices. The change in IBGE's IPCA came to 3.14%, well within the interval defined for inflation by the CMN.

The favorable behavior under farm product prices was a major factor underlying lesser growth in market prices during the year. Reductions in the prices of such items as chicken, table bread, beans and perishable foodstuffs, for example, had a significant impact in terms of slowing down the pace of price growth in the food sector during the year.

Graph 1.11  
Real average earnings



Exchange rate appreciation also contributed to lesser price growth and had a positive impact in terms of more accentuated deceleration in the prices of internationally tradable goods, compared to the prices of nontradables, while also reducing the costs associated to imported inputs in the productive chain.

**Table 1.17 – Average earnings of occupied people – 2006**

Percentage change		
Itemization	Nominal	Real <sup>1/</sup>
Total	7.6	4.3
Job position		
Registered	7.0	3.8
Unregistered	7.2	4.0
Self-employed	8.3	5.0
By sector		
Private sector	7.8	4.5
Public sector	9.7	6.3

Source: IBGE

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

Deceleration in regulated prices basically reflected lesser growth in electricity rates, gasoline prices and downward movement in fixed telephone rates. The behavior of electricity and telephone rates reflected, among other factors, sharp drops in general price indices in 2005. Parallel to this, *Petróleo Brasileiro S/A* (Petrobras) did not increase gasoline prices during the course of 2006, in contrast to the previous year when prices rose 16.5%.

## General Price Indices

Calculated by the FGV, the General Price Index (IGP-DI) and the corresponding weighted average of the Wholesale Price Index (IPA-DI), the Consumer Price Index – Brazil (IPC-Br) and the National Cost of Construction Index (INCC), which have respective weights of 60%, 30% and 10%, registered growth of 3.79% in 2006. This rate was the third smallest since the start of the series in 1944 and only closed above the rates registered in 2005 and 1998.

The IPA-DI expanded 4.29% in the year and reflected increases of 6.92% in the prices of farm products and 3.46% in those of industrial goods, compared to a reduction of 6.32% and an increase of 0.88% in the previous year, following the same order. The IPC-Br rose 2.05%, compared to a 4.93% high in 2005 and the INCC rose 5.04%, basically as a result of 6.02% growth in labor costs.

## Consumer price indices

Used as a reference for the inflation target system, the IPCA rose 3.14% in 2006, against 5.69% in the previous year. Market prices rose 2.58%, compared to 4.32% in 2005, primarily as a result of pressures exerted by such items as sugar, 15.39%; cigarettes, 11.26%; domestic help, 10.75%; condominium fees, 7.02%; and courses, 6.79%. Regulated prices increased 4.28% in 2006, against 8.98% in the previous year.

In 2006, IBGE's National Consumer Price Index (INPC) reached 2.81%, against 5.05% in the previous year. This indicator differs from the IPCA in terms of the target population, which corresponds to families receiving monthly income between 1 and 8 times the monthly minimum wage, while the IPCA considers monthly income brackets between 1 and 40 times the minimum wage. Lesser growth in the INPC during the year, compared to the IPCA, resulted from the greater weight attributed to the prices of tradables in the weighting structure.

Inflation measured by the Consumer Price Index (IPC), which is calculated by the Institute of Economic Research Foundation (Fipe), encompassing families with earnings between 1 and 20 times the minimum monthly wage in the RMSP, closed 2006 at 2.54%, against 4.53% in the previous year.

## Regulated prices

In 2005, regulated prices<sup>2</sup> expanded 4.28%, compared to 8.98% in 2005, reflecting 1.38 p.p. growth in the IPCA. The items that generated the strongest pressures were medicines, health plans, gasoline, bottled gas and urban bus fares, intercity buses and water and sewage rates, accounting for approximately 95% of annual growth in these prices.

The reduction in the annual growth of regulated prices was a consequence of alterations in fixed telephone rates and residential electricity rates, as well as gasoline prices.

Alterations in fixed telephone rates are authorized annually by the National Telecommunications Agency (Anatel), based on changes in a basket of price

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<sup>2/</sup> Monitored prices are those directly or indirectly defined by the federal, state or local governments. In some cases, price readjustments are set through contracts between producers/suppliers and the corresponding regulating agencies, as for instance in the cases of electric energy and fixed telephone system.

**Table 1.18 – IPCA items share in 2006**

Groups	IPCA				
	Weight <sup>1/</sup>	Accumulated change in 2005	Accumulated change in 2006	Accumulated share in 2006	Index share <sup>2/</sup>
IPCA	100.0	5.7	3.1	3.1	100.0
Foodstuffs and beverages	20.9	2.0	1.2	0.3	8.2
Housing	15.1	6.4	3.1	0.5	14.8
Housing products	5.0	2.7	-2.7	-0.1	-4.4
Apparel	6.0	7.1	5.1	0.3	9.6
Transportation	21.7	8.1	3.0	0.7	20.9
Health and personal care	10.7	6.2	6.0	0.6	20.4
Personal outlays	9.3	7.0	7.3	0.7	21.5
Education	6.0	7.2	6.2	0.4	12.0
Communication	5.2	6.4	-0.2	-0.0	-0.4

Source: IBGE

<sup>1/</sup> Average weight in 2006.

<sup>2/</sup> It is obtained by dividing the accumulated share in the year by the accumulated change in the year.

indices and a factor reflecting the productivity gains of the companies involved. In 2006, the drop in rates came to an average of 0.83%.

In 2006, average alterations in electricity rates reached 0.27%, with variations from -7.5% in Brasilia to 6.45% in Goiânia, with reductions in the rates charged in five of the 11 regions surveyed. The alterations introduced follow a schedule defined by the Brazilian Electricity Regulatory Agency (Aneel), which sets the period for annual alterations for each one of the concession companies. These changes are based on managerial costs, which determine a productivity gain factor for each companies, together with the General Price Index – Market (IGP-M), calculated by the FGV, accumulated over the 12-month period prior to the date of the increase, as well as nonmanagerial costs, such as energy purchased and transmission costs.

## Cores

In 2006, the three measurements of the IPCA inflation core calculated by the Central Bank registered the lowest growth rates since 1998, keeping pace with deceleration of the headline index.

The core by exclusion varied 3.56%, against 5.55% in the previous year. The core measured by the trimmed-means method without smoothing registered more accentuated deceleration than the IPCA in 2006 and dropped from 5.3% in 2005

**Table 1.19 – Major items included in the IPCA during 2006**

Itemization	IPCA			
	Weight <sup>1/</sup>	Accumulated change in 2005	Accumulated change in 2006	Accumulated share in 2006
Index (A)	100.0	5.69	3.14	3.14
Non-monitored prices	67.7	4.32	2.58	1.74
Monitored prices	32.3	8.98	4.28	1.38
Selected monitored items				
Health care	3.0	12.03	12.29	0.37
Urban transportation	4.4	10.44	8.12	0.36
Water and sewage fees	1.8	13.42	4.99	0.09
Medicine	3.5	6.02	4.62	0.16
Gasoline	4.6	7.76	2.94	0.14
Domestic gas	1.4	0.24	7.49	0.10
Electric energy	4.3	8.07	0.27	0.01
Telephone	3.6	6.68	-0.83	-0.03
Air ticket	0.5	28.10	-9.62	-0.05

Source: IBGE

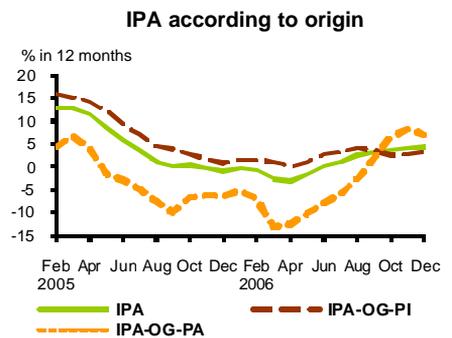
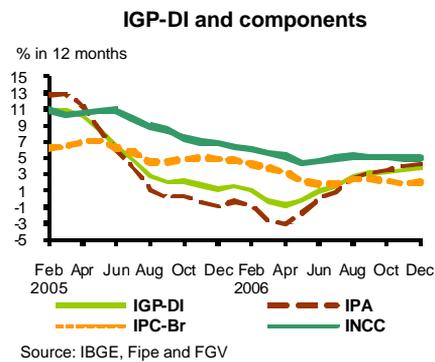
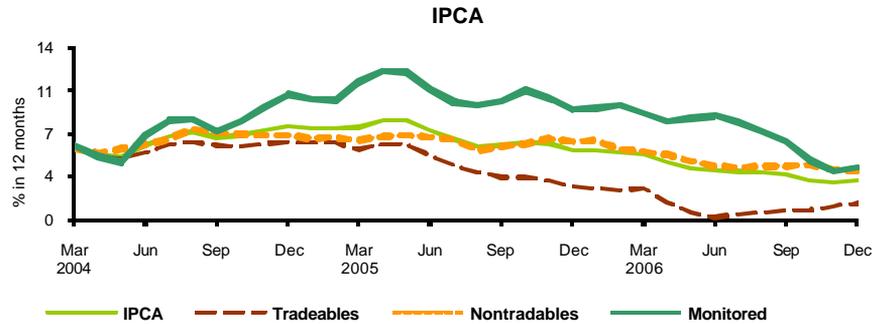
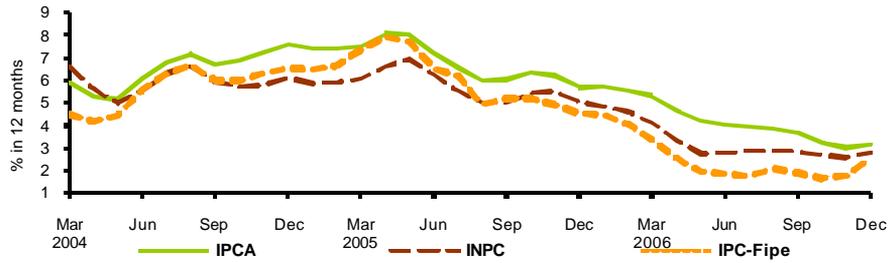
<sup>1/</sup> Average weight in 2006.

to 2.76%. The core based on the smoothed trimmed-means method<sup>3</sup> accumulated a high of 4.63% in the year and remained at a higher level than the other inflation indices. This performance resulted from the concept underlying this indicator, which includes delayed growth in the prices of some items. Among the smoothed items that contributed significantly to deceleration of the IPCA in the year, mention should be made of public transportation, residential electricity, fuels and communications.

The IPC-Br core, calculated by applying the smoothed trimmed-means method to specific items, varied 2.82% in 2006 against 5.07% in 2005, according to FGV data.

<sup>3/</sup> Alterations carried out in IPCA's Family Budget Survey (POF) in July 2006 included the breakdown of the item Courses into Courses and Sundry Courses. As a result, the calculations of the new item "Sundry Courses" utilized the variations of the former Sundry Courses sub-item, and the item Courses was recalculated in order to avoid double counting of Sundry Courses.

Graph 1.12  
Consumer price indices



Source: IBGE, Fipe and FGV

Table 1.20 – Consumer prices and core inflation in 2006

Itemization	2005	2006		
		1st half	2nd half	In the year
IPCA	5.69	1.54	1.58	3.14
Exclusion	5.55	2.15	1.38	3.56
Trimmed means				
Smoothed	6.76	2.75	1.83	4.63
Non smoothed	5.30	1.84	0.91	2.76
IPC-Br	4.93	0.62	1.43	2.05
Core IPC-Br	5.07	1.57	1.23	2.82

Source: IBGE and FGV

## Money and Credit

### Monetary policy

In 2006, monetary policy was implemented with the objective of ensuring continuity of the gains inherent to an environment of price stability. Considering the annual inflation target of 4.5% stipulated by the National Monetary Council (CMN), the Monetary Policy Committee (Copom) reduced the Selic rate target, which is utilized in open market interventions, by a total of 4.75 p.p. during the year, setting the year's final rate at 13.25% per year at its December 2006 meeting. At the same time, the CMN introduced a 2.9 p.p. cutback in the TJLP, used as the benchmark for BNDES credit operations, dropping it to 6.85% per year in the same period. It is important to stress that Copom met eight times in 2006, in keeping with the alterations introduced by Circular 3,297 and Communiqué no. 13,821, both dated October 31, 2005, determining intervals of six weeks between the Committee's meetings.

In the first three meetings of the year, Copom reduced the Selic rate target 0.75 p.p., diminishing the intensity of these reductions to 0.5 p.p. at its subsequent meetings. This reduction reflected uncertainties surrounding the level of transmission of the impact of the more flexible monetary policy adopted as of September 2005, together with a certain degree of wariness regarding external liquidity conditions, in light of the alterations introduced into United States monetary policy.

The adoption of a more flexible Brazilian monetary policy was facilitated by downward movement in inflationary expectations for 2006. In cumulative 12-month terms as of the month of April, these expectations indicated that inflation would close at a level somewhat below the target. A similar tendency was noted as of September in expectations regarding 2007 price indices.

Parallel to this, several other factors came together, among which mention should be made of the evolution of exchange rates, which aided in enhancing internal competition in the segment of tradables; the ongoing process of accumulation of international reserves and anticipated buybacks of debt securities denominated in foreign currency, generating positive impacts on external financing

conditions and reducing risk premiums on funding operations abroad; together with reductions in the so-called Brazil risk, calculated by the Emerging Markets Bond Index Plus (Embi+), to a historically low level below 200 basis points, thus establishing the benign environment required in order to reduce inflation levels.

In this context, the IPCA, used as the underlying reference for the inflation target system, expanded 3.14% in the year, against 5.69% in the previous year. This was the first time the rate had closed below the target established for the year since the system was adopted in 1999.

## Federal public securities and Central Bank open market operations

In a macroeconomics scenario of enhanced stability, the operations of economic agents become more predictable and this has a highly positive impact on capital allocation decisions. In this framework, maturities of repo operations were extended and aided in increasing the effectiveness of Central Bank liquidity management.

Over the course of 2006, the Central Bank operated on the open market through repo operations with dealer institutions, withdrawing or injecting resources as required to ensure that the specified Selic rate target would be achieved.

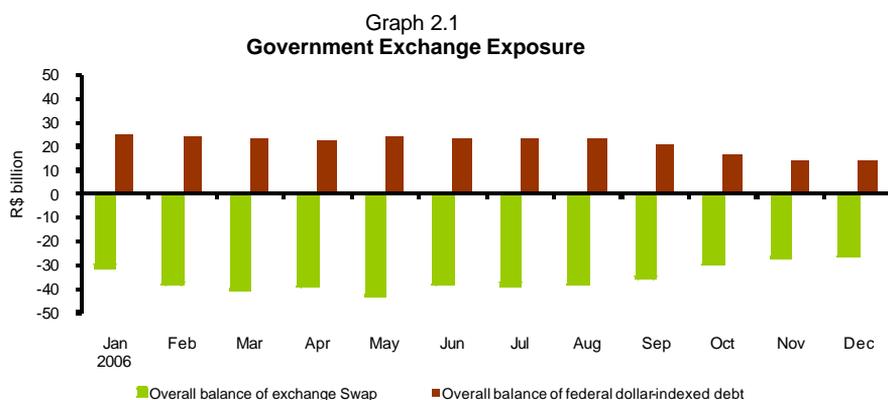
In keeping with its responsibility for managing the liquidity conditions of the economy, the Central Bank sponsored sale operations with buyback commitments and shorter-term maturities, thus enhancing the effectiveness of liquidity management. These operations were carried out through September and totaled R\$33.3 billion, concentrated mainly in National Treasury Bills (LTN). At the same time, the average daily balance of repo operations with three-month maturities totaled R\$2.5 billion in December 2006, compared to R\$25.4 billion in the same month of 2005. Moving in the opposite direction, transactions with five-month maturities increased from R\$23.4 billion to R\$30.8 billion in the same time span, while seven-month operations begun in September closed December with a daily average of R\$23.7 billion. In these transactions, both LTN and National Treasury Notes – Series B and F were utilized (NTN-B and NTN-F).

The net financing position in federal public securities closed with a daily average that increased from R\$39.7 billion at the close of 2005 to R\$68.1 billion, reflecting the liquidity conditions of the economy. Basically, this growth was tied to the process of sterilization of foreign currency purchases made by the Central Bank, in a total amount of R\$74.4 billion in 2006, together with adjustments at the

margin in exchange swap operations totaling approximately R\$5.4 billion. In the opposite sense, excluding operations with public securities, transactions through the National Treasury Operating Account resulted in monetary base contraction totaling R\$59.5 billion.

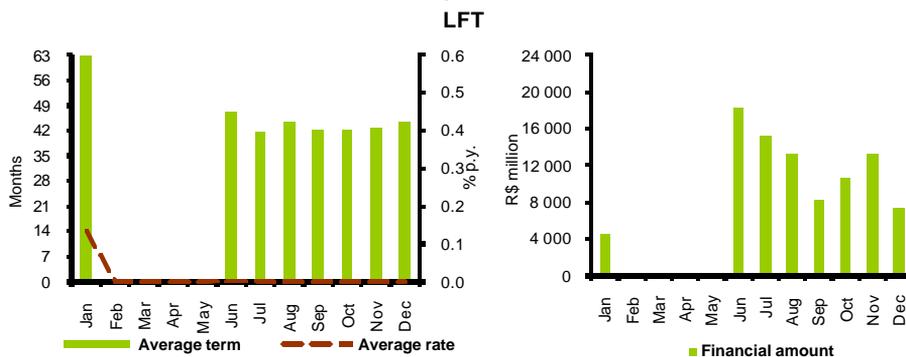
The Central Bank assumed an active exchange position on the futures market, registering an offer of US\$18.7 billion in reverse exchange swaps during the year. In the month of June alone, swap offers with passive exchange positions carried out by the Central Bank totaled US\$798 million. With these operations, the government's exchange exposure, which considers public securities and derivatives, reversed position and remained at a negative position of R\$12.1 billion in December. With regard to exchange instruments in 2006, totals of US\$5 billion in public securities indexed to exchange, US\$726 million in swap operations and US\$13.5 billion in reverse swap operations matured during the course of 2006.

The public security operations carried out by the National Treasury had an expansionary impact of R\$21.6 billion, reflecting placements of R\$357.6 billion, maturities of R\$352.2 billion and anticipated redemptions of R\$27 billion. In the year, exchange operations reached R\$112.8 billion, of which 55.8% consisted of NTN-B.



According to the guidelines set down in the National Treasury's Annual Borrowing Plan (PAF) for 2006, placements prioritized securities with fixed earnings, LTN and NTN-F, which accounted for 67.4% of issuances. The offer of inflation-linked securities, NTN-B and National Treasury Notes – Series C (NTN-C) accounted for 14.3% of total operations. Keeping step with the trajectory of the basic rate of interest, issuances of floating-rate securities, Treasury Financing Bills (LFT), dropped sharply in 2006 and posted participation of 18.2% of total funding operations. Furthermore, it is important to observe the reduction in the risk premium built into the average rate of earnings which, following the downward

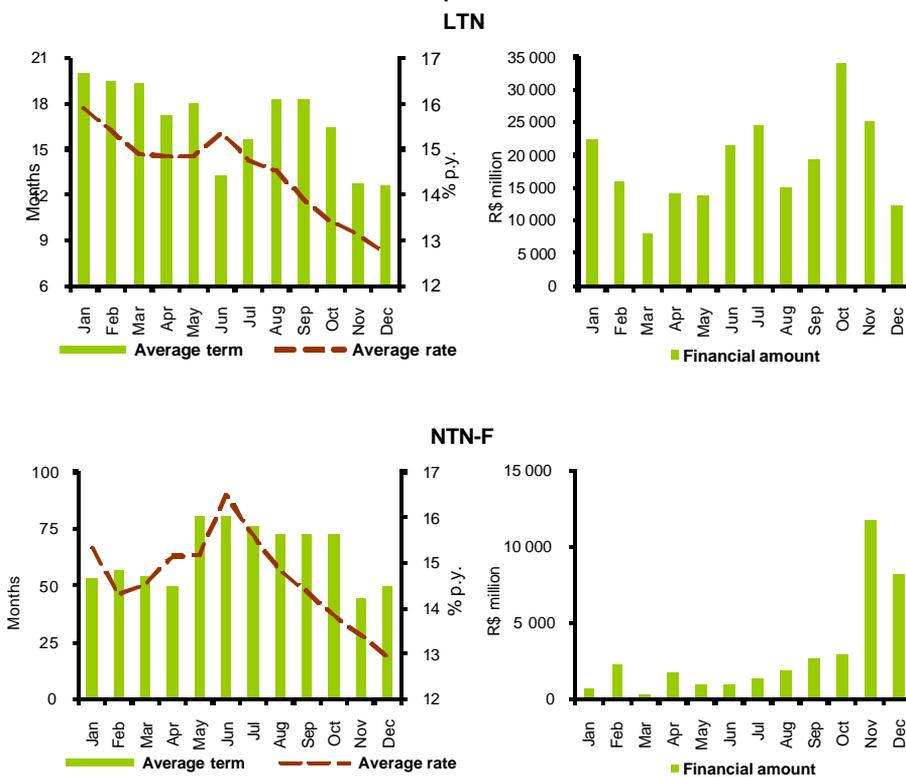
Graph 2.2  
Auctions of federal public securities – 2006



trend that marked previous years, fell to a zero level as of February 2006. Maturities were concentrated in securities tied to the Selic rate, 48.7%, and fixed-rate securities, 42% of the total.

With this recomposition, the participation levels of fixed rate securities and inflation-linked securities in the overall Internal Federal Public Securities Debt (DPMFi) expanded from 27.8% and 15.5%, respectively, in December 2005, to

Graph 2.3  
Auctions of federal public securities – 2006

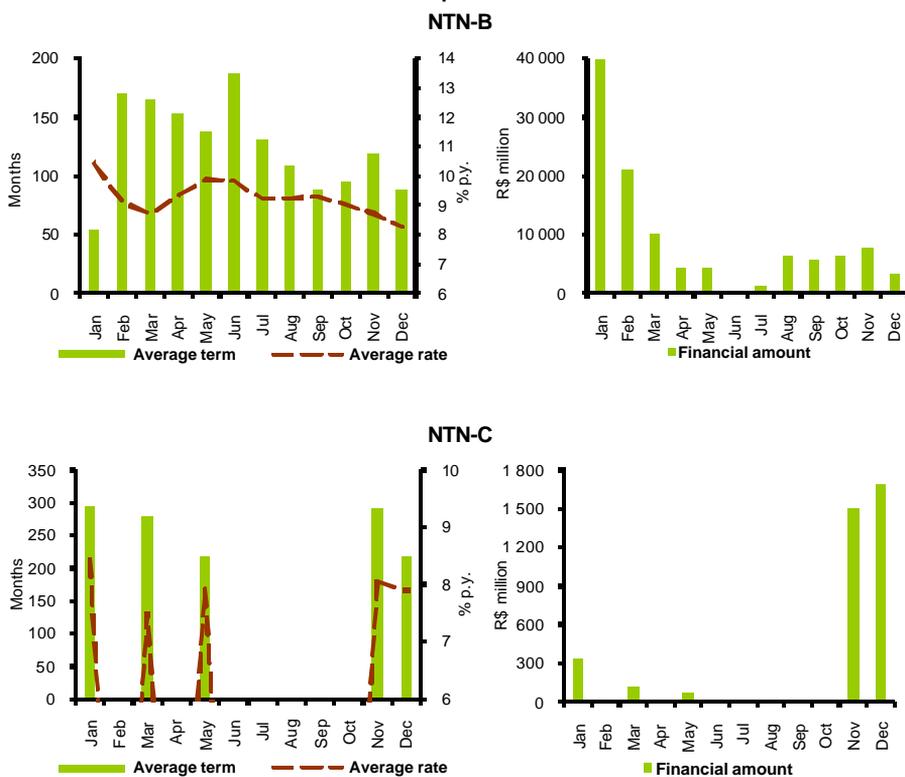


36.1% and 22.5%, in the same month of 2006. In the opposite sense, the participation of securities tied to the Selic rate dropped from 51.8% to 37.8% in the period. The average term of DPMFi reached 31 months in December, against 27.4 months in the same period of the previous year.

One should also emphasize growth in the participation of foreign investors in the public securities market from 0.66% in December 2005 to a level of 2.64%, primarily as a result of issue of Provisional Measure no. 281, which exempted nonresident investors from the income tax levied on this type of investment.

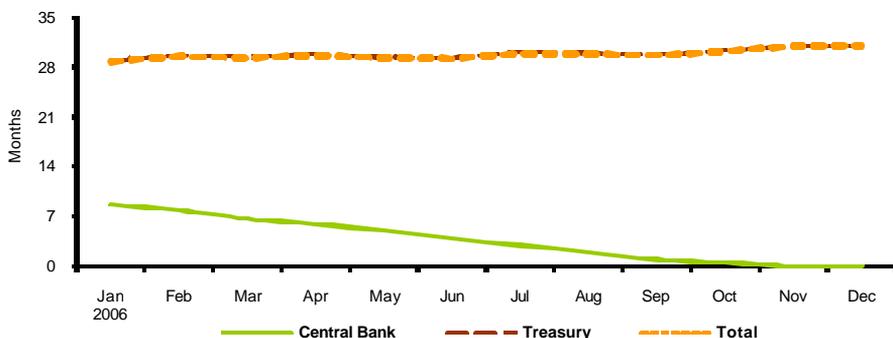
Graph 2.4

**Auctions of federal public securities – 2006**



Graph 2.5

**Average term of the internal federal public securities debt**



## Monetary aggregates

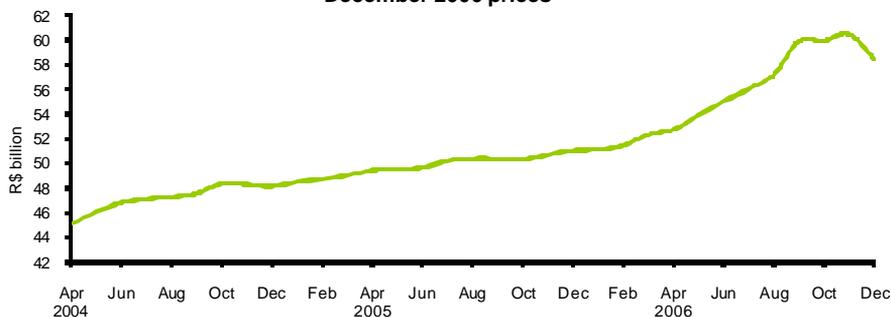
The behavior of monetary aggregates in 2006 reflected the upturn in the pace of economic activity, with increased demand for financial system loans. The situation reflected the environment of declining basic interest rates, exchange stability and improved income and employment conditions, together with inflows of foreign currency as a result of record external sector performances.

Graph 2.6  
**Money supply (M1) – Income velocity<sup>1/</sup>**



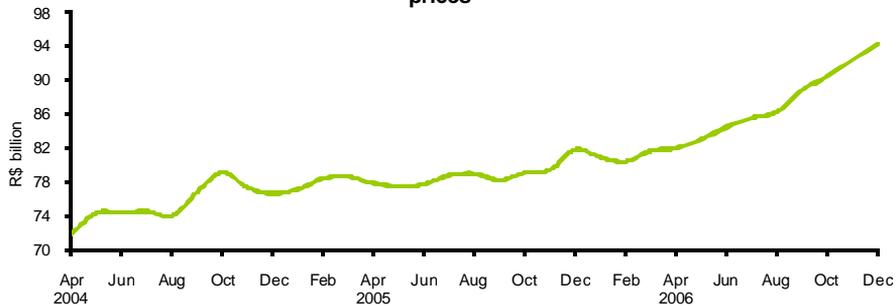
<sup>1/</sup> Defined as the ratio between twelve-month accumulated GDP (valuated by IGP-DI) and the average balance of the monetary aggregate.

Graph 2.7  
**Currency outside banks – Seasonally adjusted at December 2006 prices<sup>1/</sup>**



<sup>1/</sup> Price index: IPCA.

Graph 2.8  
**Demand deposits – Seasonally adjusted at December 2006 prices<sup>1/</sup>**



<sup>1/</sup> Price index: IPCA.

In this framework, the average daily balances of the money supply in the restricted concept (M1) reached R\$167.2 billion in December. Annual growth of 17.4% resulted from increases of 17.6% in the average balance of currency held by the public and 17.2% in demand deposits. The income velocity of M1, defined as the

**Table 2.1 – Collection rate on mandatory reserves**

Percentage							
Period	Demand deposits <sup>1/</sup>	Time deposits <sup>1/</sup>	Savings deposits <sup>1/</sup>	Credit operations	FIF Short-term	FIF 30 days	FIF 60 days
Prior to							
Real Plan	50	-	15	-	-	-	-
1994 Jun <sup>2/</sup>	1002/	20	20	-	-	-	-
Aug	" 2/	30	30	-	-	-	-
Oct	" 2/	"	"	15	-	-	-
Dec	902/	27	"	"	-	-	-
1995 Apr	" 2/	30	"	"	-	-	-
May	" 2/	"	"	12	-	-	-
Jun	" 2/	"	"	10	-	-	-
Jul	83	"	"	"	35	10	5
Aug	"	20	15	8	40	5	0
Sep	"	"	"	5	"	"	"
Nov	"	"	"	0	"	"	"
1996 Aug	82	"	"	"	42	"	"
Sep	81	"	"	"	44	"	"
Oct	80	"	"	"	46	"	"
Nov	79	"	"	"	48	"	"
Dec	78	"	"	"	50	"	"
1997 Jan	75	"	"	"	"	"	"
1999 Mar	"	30	"	"	"	"	"
May	"	25	"	"	"	"	"
Jul	"	20	"	"	"	"	"
Aug	"	"	"	"	0	0	"
Sep	"	10	"	"	"	"	"
Oct	65	0	"	"	"	"	"
2000 Mar	55	"	"	"	"	"	"
Jun	45	"	"	"	"	"	"
2001 Sep	"	10	"	"	"	"	"
2002 Jun	"	15	"	"	"	"	"
Jul	"	"	20	"	"	"	"
2003 Feb	60	"	"	"	"	"	"
Aug	45	"	"	"	"	"	"

<sup>1/</sup> As of August/2002, a new additional requirement on demand resources (3%), time deposits (3%) and savings deposits (5%) became effective. As of October/2002, rates for additional requirements on demand resources, time deposits and savings deposits moved to 8%, 8% and 10%, in that order.

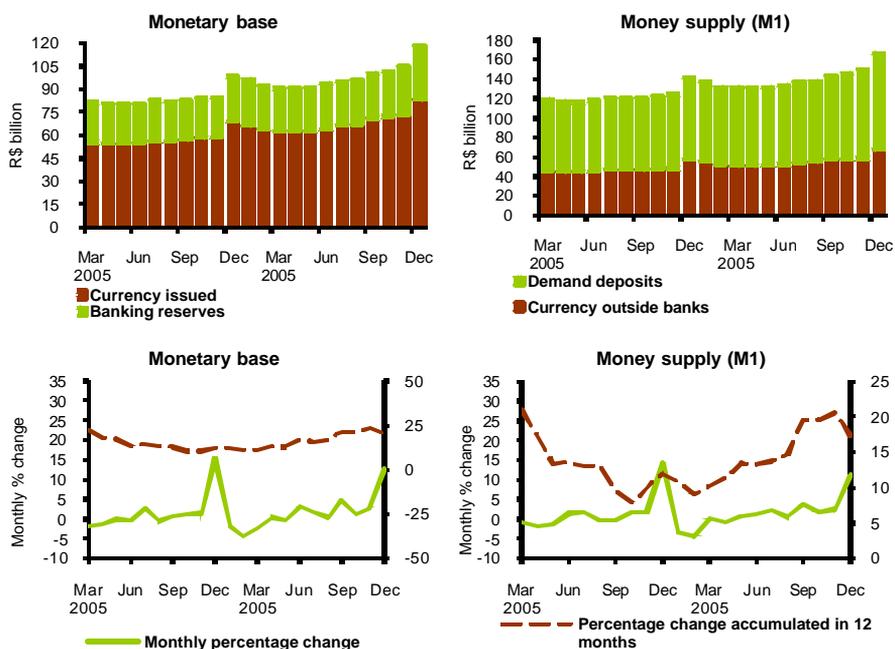
<sup>2/</sup> From June/1994 to June/1995 the 100% and the 90% rates refer to additional collections in relation to the base-period which was calculated between June 23 and June 30, 1994. As of July 1995, the levying of compulsory deposits refers only to the arithmetic median of daily balances in each calculation period.

ratio between GDP and this monetary aggregate, was clearly compatible with this behavior and remained relatively stable, closing December at a level slightly below the 2005 results. When seasonally adjusted data deflated by the IPCA are utilized, M1 expanded 14.8% in the year under analysis, a performance that was clearly consistent with real growth in the minimum wage and the volume of resources targeted to expenditures generated by the electoral process, together with programs involving direct income transfers from the federal government.

In response to demand for M1, the monetary base came to a December total of R\$118.3 billion, based on the concept of average daily balances. Annual growth of 20.3% reflected increases of 19.9% in the average balance of currency issued and 21.5% in banking reserves. Reserve requirement rates on demand resources remained unchanged at 45%.

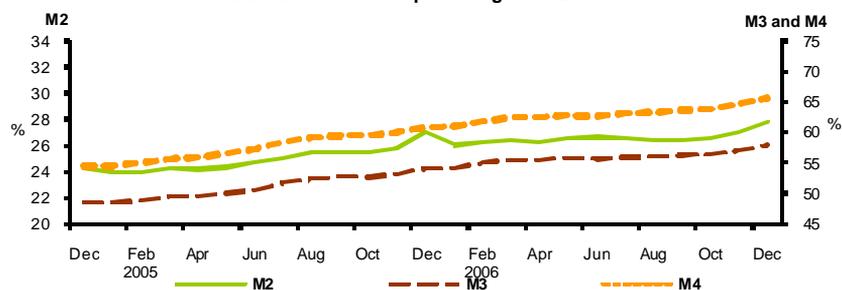
With respect to sources of primary currency issues, external operations, mainly net Central Bank exchange purchases on the interbank exchange market, and adjustments in derivative operations through exchange swaps, produced expansionary impacts of R\$74.4 billion and R\$5.4 billion, respectively, in 2006. Moving in the opposite direction, when security operations are excluded, the National Treasury operating account posted contraction of R\$59.5 billion, to some extent reflecting the record tax inflow of R\$385.4 billion.

Graph 2.9  
**Monetary base and money supply (M1)**  
 Average daily balances



The broad monetary base, which includes the restricted monetary base, reserve requirements in cash and federal public securities outside the Central Bank, ended 2006 with a balance of R\$1.3 trillion, posting an increase of 15.8% compared to the previous year. The major determinant of this performance was updating of the federal public debt held by the market, which accounted for 13.2 p.p. of growth.

Graph 2.10  
Financial Assets – As percentage of GDP<sup>1/</sup>



<sup>1/</sup> Last twelve month GDP at prices of indicated month (deflator: centered IGP-DI) based on the series released by IBGE.

**Table 2.2 – Financial assets**

End-of-period balance		R\$ billion			
Period		M1	M2	M3	M4
2005	Jan	118.8	489.1	992.6	1 115.0
	Feb	117.8	492.6	1 005.8	1 132.3
	Mar	116.8	502.6	1 024.2	1 152.7
	Apr	113.7	503.1	1 031.3	1 162.3
	May	115.8	504.3	1 036.4	1 170.8
	Jun	116.9	512.5	1 046.8	1 184.4
	Jul	116.7	518.1	1 067.3	1 205.0
	Aug	117.0	526.6	1 083.7	1 223.5
	Sep	117.4	532.5	1 101.3	1 241.5
	Oct	119.7	539.2	1 113.0	1 257.4
	Nov	126.5	549.5	1 136.1	1 280.6
	Dec	144.8	582.5	1 166.5	1 312.4
2006	Jan	130.0	567.3	1 179.5	1 327.2
	Feb	131.1	574.9	1 202.2	1 349.7
	Mar	128.7	578.8	1 217.8	1 370.8
	Apr	127.5	579.7	1 225.5	1 379.3
	May	130.9	594.0	1 245.9	1 401.1
	Jun	132.1	600.4	1 252.5	1 409.3
	Jul	133.6	604.8	1 271.6	1 434.7
	Aug	136.3	607.0	1 283.7	1 450.3
	Sep	143.1	611.9	1 301.9	1 471.3
	Oct	145.0	622.4	1 320.2	1 493.8
	Nov	151.9	637.7	1 348.1	1 527.4
	Dec	174.3	661.5	1 377.7	1 558.6

In the M2 concept, the money supply expanded 13.6% in the year, with emphasis on 11% growth in the balance of savings accounts and 10.6% under private securities. These results reflect net inflows of R\$6.5 billion in savings accounts and net redemptions of R\$7.9 billion in time deposits.

Viewed under the prism of M3, the money supply expanded 18.1% in 2006. Among its components, investment fund quotas increased 22.3%, with net funding of R\$39.3 billion. M4 expanded 18.8%, closing 2006 at R\$1.6 trillion, with growth of 24.8% in the balance of federal securities on the market.

## Financial system credit operations

The evolution of financial system credit operations in 2006 continued on the growth trajectory observed since the previous year. For the most part, this performance reflected financing based on non earmarked resources. In this context, loan demand by families was impacted by the modalities of personal loans and financing of consumer durables, which, in turn, reflected improved income and employment conditions. In the corporate segment, loan growth was sustained by operations based on domestic resources, mainly working capital operations, as small and medium businesses increased their participation in total bank credits. It should be stressed that demand for financing by large scale companies has been increasingly impacted by growing access to alternative sources of financing, particularly primary debenture and stock issues.

At the same time, just as occurred in the preceding year, the performance of financing contracted on the basis of earmarked resources mostly involved BNDES operations, representing a major share of the segment. At the same time, mention should be made of expansion in loans targeted to the housing sector, which have intensified as a consequence of institutional measures implemented in recent years. This growth was also driven by consolidation of the favorable macroeconomic environment, considered an important conditioning factor for the sustainability of long-term operations. With regard to the rural sector, greater credit demand reflected gradual recovery in the pace of crop/livestock activity, particularly when viewed against the rather poor performance of previous years, occasioned by climatic adversities.

In this context, credit operations contracted by the financial system, including both earmarked and non earmarked resources, reached R\$732.6 billion in December 2006, with growth of 20.7% in the year. Consequently, the overall volume of loans reached 30.8% of GDP, compared to 28.1% in December 2005.

A breakdown of credit classification according to the controlling interest in financial institutions shows that loans granted by private national banks totaled R\$302.3 billion in December, up 22.1% in the year, representing 41.3% of the financial system total. These operations were concentrated mainly in loans to individuals, industrial credits and loans to the sector of commerce. The credit portfolios of public institutions reached R\$268.6 billion, corresponding to 36.7% of total loans, with annual growth of 20.3%. In this case, the highlights were operations involving the sectors of industry and other services. Financing contracted with foreign institutions increased 18.8% in the year, posting a balance of R\$161.7 billion, reflecting increased loan demand on the part of individual borrowers, other services and commerce.

**Table 2.3 – Credit operations**

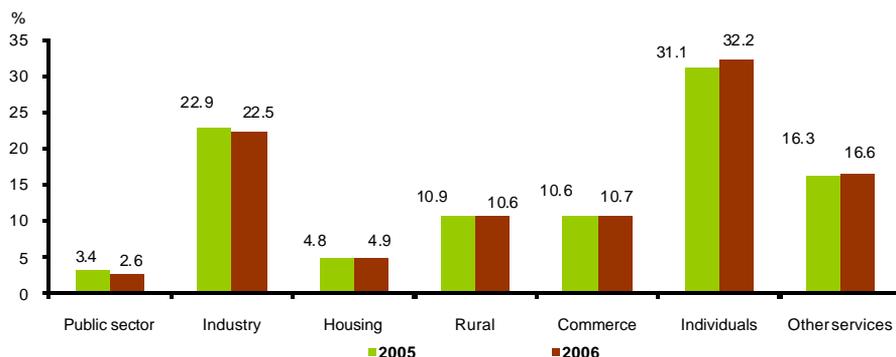
Itemization	R\$ billion			
	2004	2005	2006	% growth
Total	498.7	607.0	732.6	20.7
Nonearmarked	317.9	403.7	498.3	23.4
Earmarked	180.8	203.3	234.3	15.2
<b>% participation:</b>				
Total/ GDP	24.5	28.1	30.8	
Nonearmarked/GDP	15.6	18.7	21.0	
Earmarked/GDP	8.9	9.4	9.9	

Credit operations targeted to the private sector, including both nonearmarked and earmarked resources broken down on the basis of economic activity segment, added up to R\$713.7 billion in December, for growth of 21.7% compared to 2005. Loans contracted with individual borrowers posted annual growth of 24.9%, with strong performances under personal loans and auto loans.

Financing granted to the industrial sector totaled R\$164.6 billion, for growth of 18.4% in the year, led by the sectors of mining, energy and foodstuffs, particularly, sugar and alcohol output. Loans targeted to commerce totaled R\$78.4 billion, up 21.6% in the year, mainly involving operations concentrated in the sectors of supermarkets, automobiles, home appliances and fuel distribution. Operations with the segment of other services totaled R\$121.5 billion, accumulating 22.5% growth in the period. Here, particular mention should be made of disbursements to the segments of telecommunications, transportation and energy.

The volume of loans channeled to the housing sector totaled R\$35.7 billion in December, with annual growth of 22.7%. The flow of operations with savings account resources targeted to individuals and housing cooperatives reached R\$9.2 billion, against R\$4.6 billion in 2005. Acquisitions of new housing units

Figure 2.11  
Credit by borrower's economic activity – Financial system



accounted for 52.7% of the total disbursed in 2006, while the remainder consisted of real estate construction. A breakdown on the basis of financial charges shows that financing contracted at interest rates governed by the Housing Finance System (SFH) totaled R\$8.7 billion, while those contracted at market rates accounted for R\$474 million. Investments generated by the Employment Compensation Fund (FGTS) and targeted to low-cost housing reached a cumulative figure of R\$6.8 billion in 2006, for growth of 33.7% compared to the previous year.

The new dynamics of the building industry reflect measures implemented by the federal government in recent years, with the specific aim of improving the legal framework and expanding the supply of financing to the real estate sector. In this sense, particular mention should be made of application of the 1.5 multiplication factor in compliance with requirements for investments in real estate units with prices between R\$80,000 and R\$100,000. This system, which was previously restricted to SFH financing operations, was extended to operations carried out at market rates effective as of 2006, provided that the financing and accounts of each project be separately maintained.

Furthermore, other measures were taken in the second half of the year, including:

- i) the right to utilize fixed rates in the contracting of housing financing in the framework of the Brazilian System of Savings and Loans (SBPE). The maximum limit on fixed interest rates was established in Resolution no. 3,409, dated 9.28.2006;
- ii) granting of financing for acquisitions of residential real estate with mortgage payments being deducted from payroll, when contracts are formalized in the SFH framework;
- iii) reduction of taxes on the construction industry, mainly consisting of cutbacks in the Industrialized Products Tax (IPI) for building materials to be used by the low income population; and
- iv) inclusion of construction companies within the terms of the General Law on Micro and Small Businesses.

Loans granted to the rural sector expanded 17.8% in the year and totaled R\$77.7 billion. Broken down by modalities, farm investment operations, carried out mainly on the basis of onlendings from funds and government programs, expanded 14.1%, as resources granted under the terms of Moderfrota came to a total of R\$1.3 billion. Current expenditure and marketing operations expanded 16.6% and 55.6%, emphasizing that obligatory investments were the major sources of the banking resources used in these modalities.

It should be stressed that farm sector demand for bank loans in 2006 was, to some extent, driven by implementation of government measures aimed at preserving the income and liquidity of rural producers. Among these measures, particular mention should be made of the rescheduling of already matured loan installments and granting of additional time for payment of installments maturing in 2006, mostly involving current expenditure and farm investment operations.

Financing targeted to the public sector totaled R\$18.9 billion, dropping 8.2% in the year as a result of lesser energy sector demand. Financing contracted at the state and municipal levels totaled R\$14.7 billion, down 8.2%, mainly as a result of securitization of the debts of a specific state-owned company. The federal government bank debt dropped 8% in the period, reflecting amortization of contracts in the segments of gas and electricity.

Viewed in terms of the origin of banking resources, operations referenced to non earmarked resources accounted for 68% of total financial system credits, with an overall amount of R\$498.3 billion in December 2006, up 23.4% over the previous year. This performance reflected annual increases of 24.8% in loans targeted to the segment of individual persons, totaling R\$238 billion, and 17.8% in loan operations with cooperatives, with a total of R\$9.8 billion. Financing targeted to individual borrowers and contracted in the form of leasing operations expanded 64.7% in 2006, closing at R\$13.9 billion, led by the performance of leasing operations targeted to the segment of vehicles.

The most significant share of loans in this segment of individual borrowers, corresponding to interest rate reference credits, reached R\$191.8 billion in 2006. The annual increase of 23.6% reflected growth in the portfolios of personal loans, sustained by expansion under payroll deducted loans, and acquisitions of goods, just as occurred in 2005. The balances of these two modalities expanded 25.9% and 21.9%, respectively. The overall volume of these two credit modalities accounted for 80.4% of the segment of individual borrowers, against 80.1% in the preceding year.

**Table 2.4 – Non-earmarked credit operations**

Itemization	R\$ billion			
	2004	2005	2006	% growth
Total	317.9	403.7	498.3	23.4
Corporations	179.4	213.0	260.3	22.2
Domestic funding	133.1	164.9	207.7	26.0
Reference credit <sup>1/</sup>	111.9	137.3	165.0	20.2
Leasing	8.8	12.8	20.6	61.2
Rural	1.6	2.1	1.4	-32.4
Others	10.8	12.7	20.7	63.4
External funding	46.2	48.1	52.6	9.4
Individuals	138.6	190.7	238.0	24.8
Reference credit <sup>1/</sup>	113.3	155.2	191.8	23.6
Credit unions	7.0	8.3	9.8	17.8
Leasing	4.3	8.4	13.9	64.7
Others	14.0	18.8	22.5	19.5

<sup>1/</sup> Interest rate reference credit, defined according to Circular no. 2,957 dated 12.30.1999.

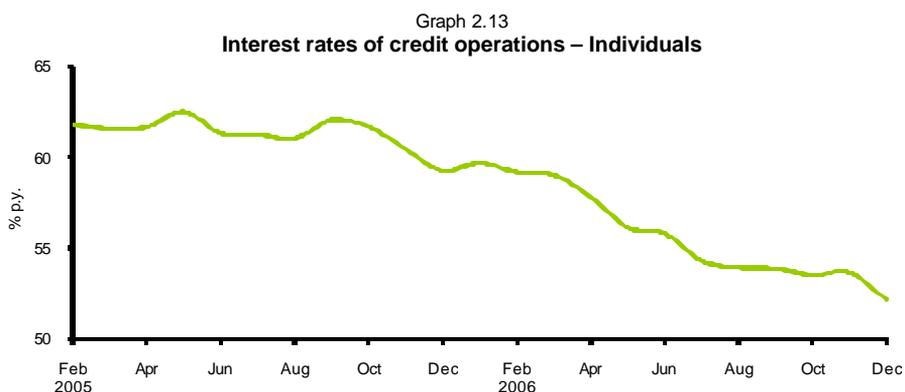
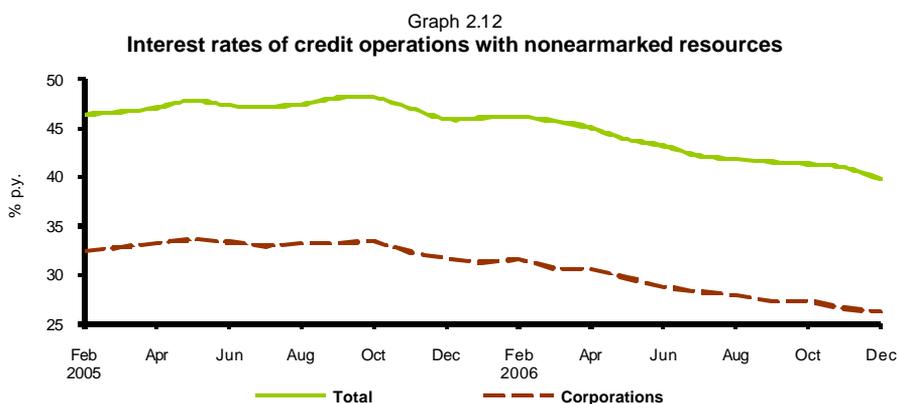
The balance of payroll deducted loans reached R\$48.1 billion in December, for annual growth of 51.9% in 2006, against 84.9% in the previous year. As a result, the relative participation of this type of operation in total personal loan operations increased 9.5 p.p. in the year, closing at 54.3%. With respect to loan operations deducted from retirement and pension benefits paid by the National Social Security Institute (INSS), 14.2 million contracts had been formalized by December 2006, against 6.8 million through the end of the previous year, corresponding to disbursements of R\$20.2 billion and R\$11.5 billion, respectively.

Loan operations with corporations based on non-earmarked resources added up to R\$260.3 billion in 2006, up 22.2% in the year. This result reflected 26% growth in portfolios referenced to domestic resources, with an overall volume of R\$207.7 billion. Of this total, R\$165 billion represented interest rate reference credits, which posted 20.2% growth compared to the previous year. This result reflected the positive performance of the working capital portfolio, which expanded at an annual rate of 31.7%. Leasing operations totaled R\$20.6 billion, for growth of 61.1% in the period under consideration. The balance of financing backed by foreign currency showed annual expansion of 9.4% and a balance of R\$52.6 billion.

The average cost of interest rate reference credits was consistent with the more flexible monetary policy adopted as of September 2005. The average rate of interest on non-earmarked reference credits fell 6.1 p.p. during the year, falling to a level of 39.8% per year, the lowest level since the historical series was first collected in June 2000. These results show reductions both in the segment of individual borrowers and in the corporate segment.

In fixed-rate operations for individual borrowers, the average rate dropped 7.2 p.p. in the year and closed at 52.1% per year, the lowest rate since the series was first calculated in July 1994. This result reflected an across-the-board reduction in loan costs, particularly in the case of personal loans, together with alterations in the credit portfolio profile as it came to include greater participation of operations with lower rates of interest, such as financing for acquisitions of goods.

The average cost of business financing operations closed December at 26.2% per year, following the trajectory of the basic rate of interest which dropped 5.5 p.p. in the year. This movement was determined by an across-the-board reduction in contracts negotiated at fixed, indexed and floating interest rates. One should emphasize the cutback of 6 p.p. in contracts formalized at floating rates of interest, mainly those referenced to the rates on Interbank Deposit Certificates or the Selic rate, which registered an average rate of 21.1% per year. At the same time, the cost of contracts with fixed charges fell 4.7 p.p., 36.9% per year, the lowest rate since March 2001.



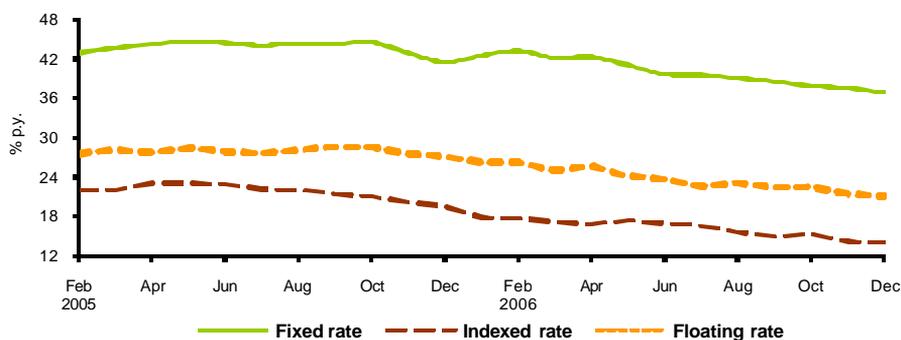
In the first quarter of the year, the banking spread in credit operations continued the expansion that marked 2005. Starting in April, however, this movement

reversed course through December 2006, when the spread stood at 27.2 p.p., representing a drop of 1.4 p.p. in the year. This variation resulted from reductions of 3 p.p. in the spread on operations with individual borrowers and 0.3 p.p. in corporate operations.

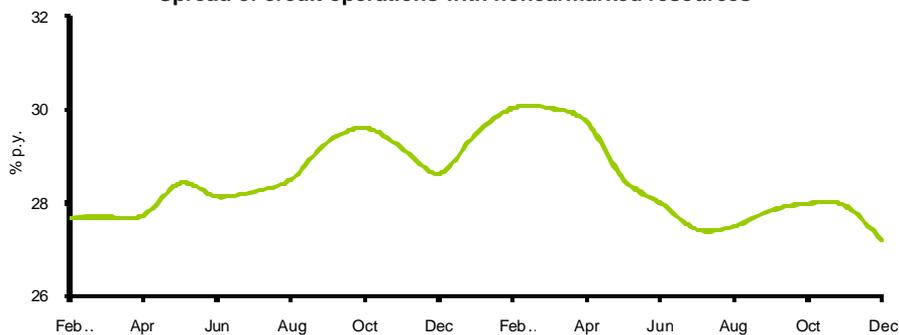
The average maturity of the interest rate reference credit portfolio reached 296 days in December, the longest ever registered by the historical series, 32 days longer than in December 2005. The average term for portfolios of individual borrowers reached 368 days, reflecting growth in modalities with longer maturities, such as personal loans and financing of goods. In the corporate segment, the average term increased 16 days, reaching a total of 234 days.

Considering only arrears of more than 90 days, the default rate in interest rate reference credits reached 5% in December 2006, up 0.8 p.p. over the previous year. On a segment-by-segment basis, defaults on the part of individual borrowers increased 0.9 p.p., reaching 7.6%, while corporate defaults increased 0.7 p.p. to a level of 2.7%.

Graph 2.14  
Interest rates of credit operations – Corporations



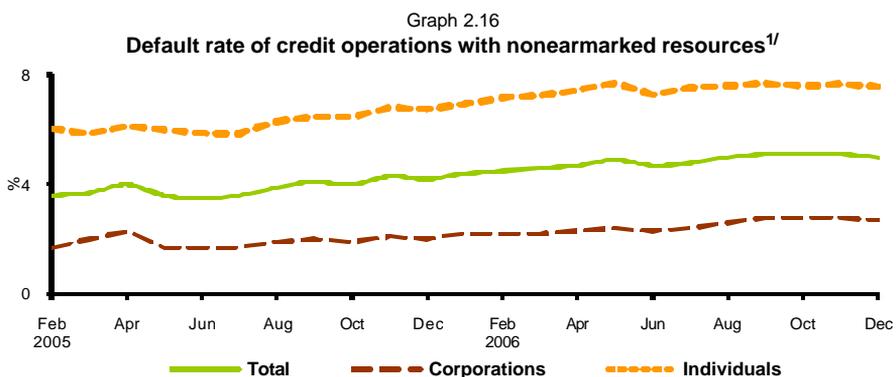
Graph 2.15  
Spread of credit operations with non earmarked resources



The share of credits based on earmarked resources totaled R\$234.3 billion at the end of 2006, for growth of 15.2% in the year. This performance was conditioned

by BNDES credit operations, which expanded 12% in the year, with a total of R\$139 billion. These operations were concentrated in financing contracted on the basis of onlendings from financial institutions. Other factors that contributed to this result were growth of 22.6% and 20.5%, respectively, in financing channeled to the housing and rural sectors, with stocks of R\$34.5 billion and R\$54.4 billion at the end of the year.

Disbursements granted by BNDES totaled R\$51.3 billion in 2006, for growth of 9.2% compared to the preceding year. In sectoral terms, loans to the sector of industry expanded 16%, led by oil refining, coke and alcohol, cellulose and paper and mining, while loans targeted to commerce and services expanded 6.3%, revealing increased demand on the part of sectors involved in land transportation and vehicle dealership and repairs. Disbursements to crop/livestock activity dropped 15.7% and those contracted with micro, small and medium businesses, accounting for 22% of total BNDES disbursements, dropped 5% compared to 2005.



<sup>1/</sup> Portfolio's percentage share in arrears of more than 15 days.

Consultations with BNDES, considered a measuring rod of potential disbursements of productive sector investments, reached a total of R\$106.1 billion in 2006, up 17% in the year. Basically, this result was generated by 65.1% growth in requests submitted by the segment of commerce and services, with a volume of R\$52 billion, concentrated mainly in the sectors of telecommunications, waterway transportation and energy. Moving in the opposite direction, requests submitted by industry dropped 9.2% to a level of R\$49.6 billion, mostly as a result of a decline in the segment of other transportation equipment, which includes aircraft sector exports. Consultations by the crop/livestock sector remained stable, with a volume of R\$4.4 billion.

Provisions set aside by the financial system reached a level of R\$45.8 billion in December 2006, with annual growth of 18.5%, compared to 20.7% expansion of the credit portfolio. For the most part, this behavior is explained by 20.9% growth

in the balance of credits in default, particularly operations with individual borrowers, while participation in the overall portfolio remained steady at 3.7%. In much the same way, the ratio between provisions and total credits granted came to 6.2%, a drop of 0.2 p.p. in the year. Provisions set aside by private national institutions and foreign institutions increased 28.3% and 27.6%, in that order, while those effected by the public financial system increased 6.1%.

**Table 2.5 – Earmarket credit operations**

Itemization	2004	2005	2006	R\$ billion
				% growth 2006/2005
Total	180.8	203.3	234.3	15.2
BNDES	110.0	124.1	139.0	12.0
Direct	59.3	66.3	71.7	8.2
Onlendings	50.7	57.8	67.3	16.3
Rural	40.7	45.1	54.4	20.5
Banks and agencies	39.3	43.3	51.9	19.8
Credit unions	1.4	1.8	2.4	38.4
Housing	24.7	28.1	34.5	22.6
Others	5.4	6.0	6.4	7.8

**Table 2.6 – BNDES disbursements**

Itemization	R\$ million		
	Jan-Dec		Growth
	2005	2006	(%)
Total	46 980	51 318	9.2
Industry	23 442	27 191	16.0
Oil refining, Coke and Alcohol	171	1 311	666.7
Mining	338	1 458	331.4
Cellulose and paper	1 415	2 315	63.6
Foodstuffs and beverages	2 898	3 730	28.7
Basic metallurgy	1 368	2 161	58.0
Motor vehicles	4 717	5 184	9.9
Other transportation equipment <sup>1/</sup>	6 044	4 223	-30.1
Commerce/Services	19 479	20 704	6.3
Land transportation	5 879	7 198	22.4
Vehicle dealership and repairs	963	1 899	97.2
Mail and telecommunications	1 670	2 135	27.8
Electricity, gas and hot water	6 394	4 790	-25.1
Crop/livestock	4 059	3 423	-15.7

Source: BNDES

<sup>1/</sup> It includes aircraft industry.

## National Financial System

Consolidation of the benign macroeconomic scenario during the year clearly favored adoption of a more flexible monetary policy, with significant impacts on

the allocation of financial resources. The increasingly improved health of the system, reflected in the strengthening of the institutions involved, made it possible to improve current regulations while fostering efficiency gains without detriment to autonomy, security and systemic credibility.

Interest rate reductions aided in bringing new dynamics to the reallocation of banking system funding operations and investments. Following the trend evident in the last three years, the distribution of system assets indicated greater allocation of resources into credit operations, in contrast to reductions in the securities portfolio.

In this sense, at the end of 2006, loan operations accounted for 30.8% of total banking system assets, compared to 28.6% in 2003, while the share of securities came to 27.8%, against 28.1% in 2003. With regard to the profile of the securities portfolio, the participation of public securities dropped and closed December 2006 at 70.2%, against 84.1% at the end of 2003. This trajectory was compatible with growth in issuances of private securities, mostly involving debentures.

Particular mention should be made of the January publication of Resolution no. 3,339 which had the objective of stimulating the liquidity of the private fixed income securities market and expanded the listing of securities accepted in repo operations through inclusion of instruments designed for purposes of credit securitization. Furthermore, it permitted contracting of repo operations with individual persons and nonfinancial corporate entities when private securities are involved.

Keeping step with the reallocation of asset operations, revenues generated by credit and leasing operations continued well above those involving investments in securities. This movement contributed to growth in the participation of revenues on credits in total financial intermediation operations, shifting from 50.4% in 2005 to 54.3% in 2006, while the participation of security-derived income dropped from 43.2% to 40.7%, in the same periods.

With regard to the major sources of financing for intermediation activities, the share represented by Bank Deposit Certificates (CDBs) declined, in contrast to the upward movement that occurred in 2004 and 2005. The stock of these deposits in total banking system reserve requirements moved from 18% at the end of 2005 to 16.1%. On the other hand, the participation of other sources increased, including interbank deposits and repo operations based on securities drawn from their own portfolio. Taken together, these headings expanded from 22.5% to 26.5% in the period.

As a way of stimulating the activities of Credit Unions, Resolution no. 3,399 included these entities among the financial institutions entitled to receive and effect interbank deposits. This measure was also extended to mortgage companies and authorized exchange brokerage companies to make this type of deposit. In this way, it allowed for expansion of the possibilities of liquidity management in smaller scale segments, always observing the exposure limits per client applicable to each one of these institutions.

With regard to the policy governing microfinancing operations targeted to the low income population and microentrepreneurs, Resolution no. 3,422 sought to improve the current regulatory framework by expanding the limits on these credit operations. In this context, the limit for loans granted to individual borrowers was altered from R\$600.00 to R\$1,000.00. In the case of operations targeted to productive undertakings, the limit was increased from R\$1,500.00 to R\$3,000.00, while the limit was raised from R\$5,000.00 to R\$10,000.00 in the framework of operations carried out under the terms of the National Program of Guided Productive Microfinancing in compliance with Law no. 1,110.

In order to make it possible to channel resources to the private productive sector under favorable conditions, Resolution no. 3,382 granted commercial banks, investment banks, multiple banks with commercial or investment portfolios, development banks and savings banks the right to contract loans in real with multilateral financial organizations authorized to operate on the Brazilian market. This measure completed Resolution no. 2,845, which had authorized the International Finance Corporation (IFC) to issue liabilities in local currency on the Brazilian market, provided that the resources thus obtained be targeted to productive undertakings within Brazilian territory.

In recent years, the monetary authority has improved the instruments adopted for purposes of controlling the risks to which financial institutions are subject. In this context, the process of transferring risk management responsibility to the financial institutions themselves moved forward, together with adaptation of the prudential rules issued by the Basel Committee to the structure of the National Financial System.

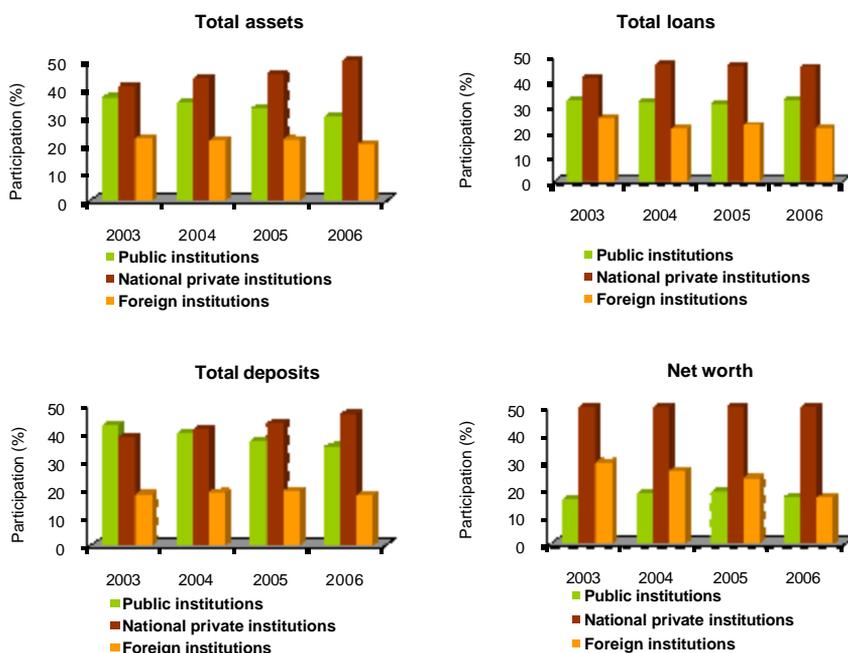
With respect to management of operational risk, Resolution no. 3,380 determined that financial institutions should have their own structures capable of identifying, monitoring, controlling and mitigating their exposure, at the latest by December 31, 2007. Operational risk is defined as the probability of losses occurring as a consequence of failures, deficiencies or inadequacy in the internal processes, persons or systems of the institution in question. This measure is aimed at implementing the New Basel Accord (Basel II) in Brazil. The New Accord sets out capital requirements not only for credit and market risk, but also for operational risk.

The progress achieved in prudential regulations in recent years, reducing the possibility of systemic crises, made it possible to improve the Credit Guarantee Fund (FGC) in 2006. Based on Resolution no. 3,400, it was expanded the maximum value of the guaranty provided by the FGC from R\$20,000 to R\$60,000, while the Council of Administration of this Fund was also authorized to reduce the percentage of monthly contributions due by associated institutions from 0.025% to 0.0125%. The increase in the coverage ceiling to R\$60,000 not only reflected updating of this value which had not occurred since 1995, but also expanded the universe of guaranteed deposits, raised client confidence and fostered additional improvements in the level of competitiveness among financial institutions.

As regards segmentation of the Brazilian banking system according to capital origin, one notes that growth in the percentage of assets held by private national banks continued, moving from 45.2% in 2005 to 49.8% at the end of 2006. This movement was impacted by acquisitions of foreign institutions by national retail banks during the year. With this, the participation of foreign banks in total assets dropped from 21.8% to 20.1% in the same period. In the case of public sector banks, their participation in assets also dropped, moving from 32.9% in 2005 to 30.1% at the end of 2006.

Graph 2.17

**Banking System – Participation by segment<sup>1/</sup>**



<sup>1/</sup> Consider only banking institutions, not consolidated by conglomerates.

With accumulation of positive balances on the exchange market since 2003, the process of adopting a more flexible approach to the rules applied to financial institution operations in this market was further deepened in 2006. Starting in December, Circular no. 3,333 raised the exposure limit in gold and other assets and liabilities referenced to exchange variation from 30% to 60%. This measure clearly favored growth in leveraging based on these operations.

Also in the context of the exchange market, Resolution no. 3,426 opened the doors to important institutional evolution, by determining that banks specialized in exchange operations could be created. These exchange banks were given the right to carry out foreign currency purchase and sale operations, transfers of currency abroad, as well as financing of foreign trade. Creation of this type of bank is designed to stimulate competition in foreign currency transactions, considering that capital requirements for their constitution are lower than those required for traditional multiple banks authorized to carry out exchange operations. At the same time, this measure may contribute to increasing the supply of financial services targeted to small scale entrepreneurs initiating their operations on the external market.

With regard to its responsibility for supervision and restructuring, the Central Bank decreed the extrajudicial liquidation of two group buyer associations during the course of 2006. At the end of that year, 70 institutions continued subject to the process of special administration, compared to 76 in 2005 and 85 in 2004.

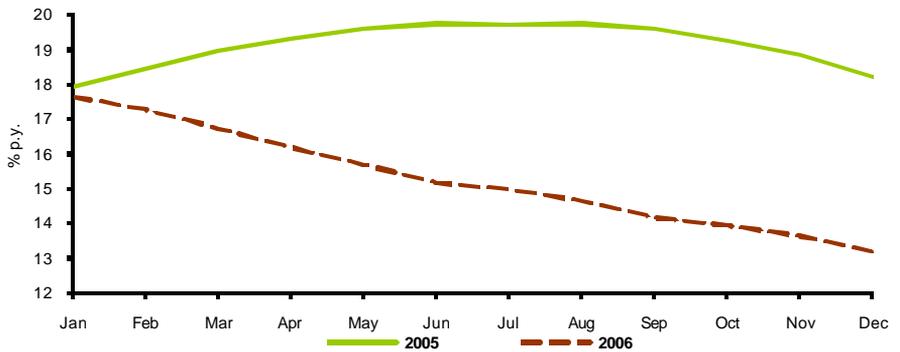


# Capital and Financial Markets

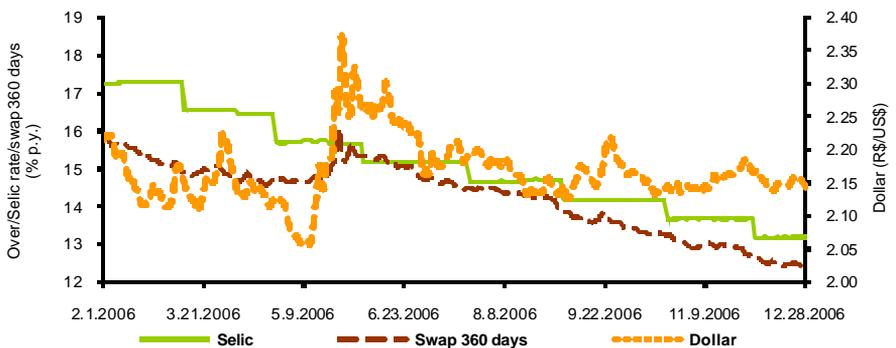
## Real interest rates and market expectations

The more flexible monetary policy implemented as of September 2005 was maintained in 2006 and resulted in a reduction of 4.75 p.p. in the basic interest rate target, which closed December at 13.25%. When one considers the Selic rate target at the end of December and market expectations in relation to the IPCA for the coming 12 months, as expressed in a survey carried out by the Central Bank, real ex-ante interest reached 9.1% at the end of 2006, reflecting a reduction of 3.8 p.p. in relation to the previous year.

Graph 3.1  
Over/Selic rate

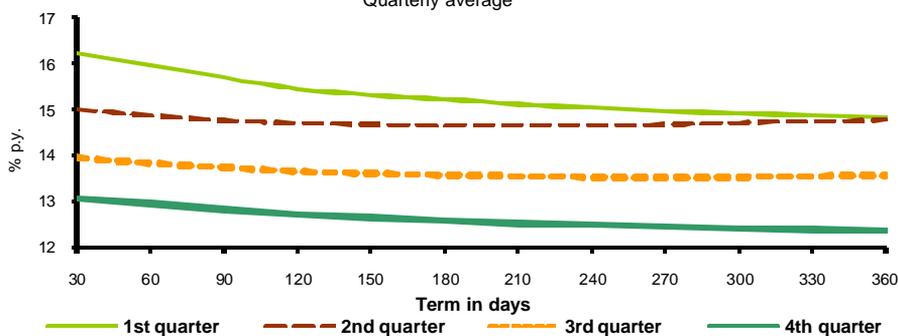


Graph 3.2  
Over/Selic rate x dollar x swap 360 days

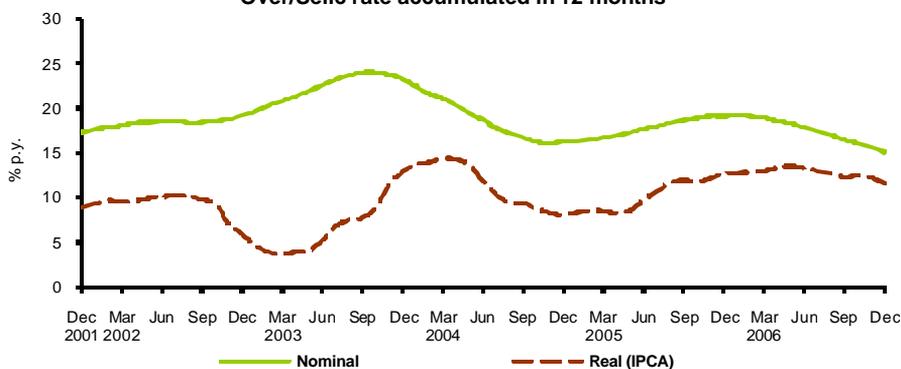


On the derivatives market, DI x pre 360-day swap contracts performed in a manner consistent with downward movement in basic interest rates. At the end of 2006, these contracts were negotiated at 12.4% per year, representing a reduction of 4 p.p. compared to the rates in effect at the end of the previous year. The forward interest rate structure also reflected the scenario of price stability. The interest curves observed at the end of each quarter showed a descending inclination and remained on a downward trajectory compared to the curve noted in the previous quarter.

Graph 3.3  
Yield curve – Swap DI x Pre  
Quarterly average

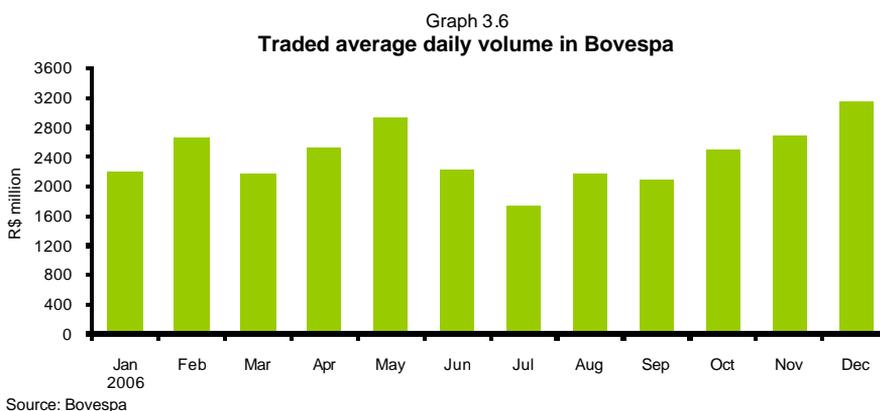
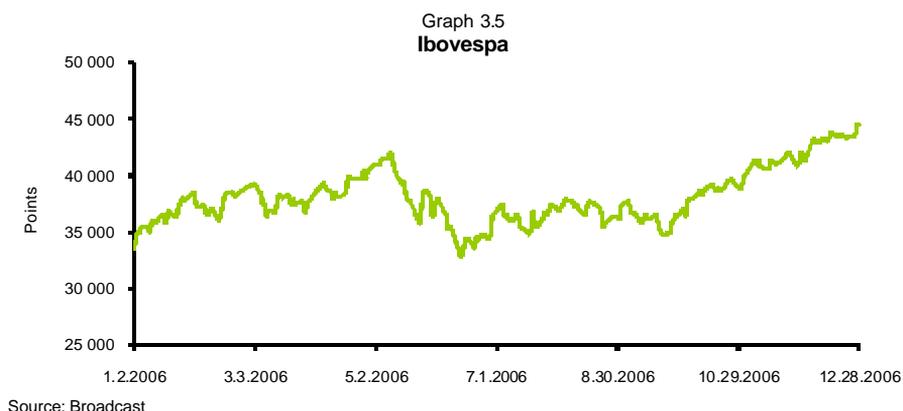


Graph 3.4  
Over/Selic rate accumulated in 12 months



## Capital market

Continuing the vigorous performance begun in 2002, the behavior of the capital market was highly positive in 2006. The São Paulo Stock Exchange Index (Ibovespa) set a record of 44,500 points at the end of 2006, with profitability of 32.9% when viewed against the previous year and 295% compared to the index at the end of 2002. The average daily volume of trading at Bovespa reached a record value of R\$2.4 billion, up 50.1% in the year and 334% when compared to the daily average in 2002. Parallel to this, the relative participation of foreign investors in this market closed at 35.5%, against 32.8% in the previous year.



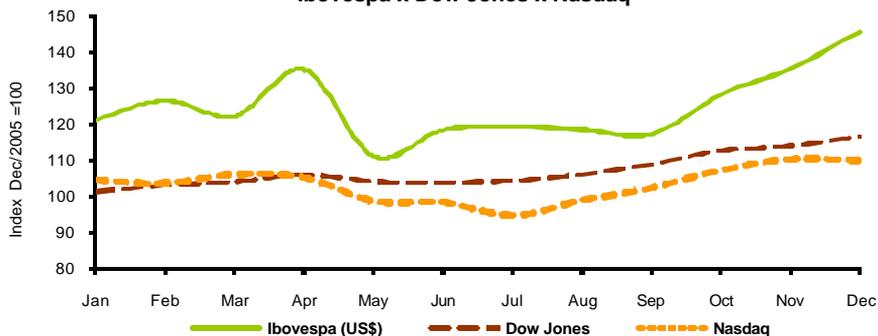
Uncertainties regarding the evolution of American economic indicators and their reflection on the world economy generated a movement of capital outflows in the month of May, pushing the Ibovespa down during a short period of time. However this movement was soon neutralized both by favorable results in domestic inflation indicators and by consolidation of the benign internal macroeconomic scenario, as the index recovered sharply in the second half of the year.

Ibovespa profitability in dollars closed well above that of American exchanges. The Brazilian stock index rose 45.5% in the year, compared to 16.6% for the Dow Jones and 10% for Nasdaq.

In this context, the market value of companies listed on the São Paulo Stock Exchange (Bovespa) set a record of R\$1.5 trillion at the end of 2006, with upward value movement of 36.9% compared to the value registered in December 2005.

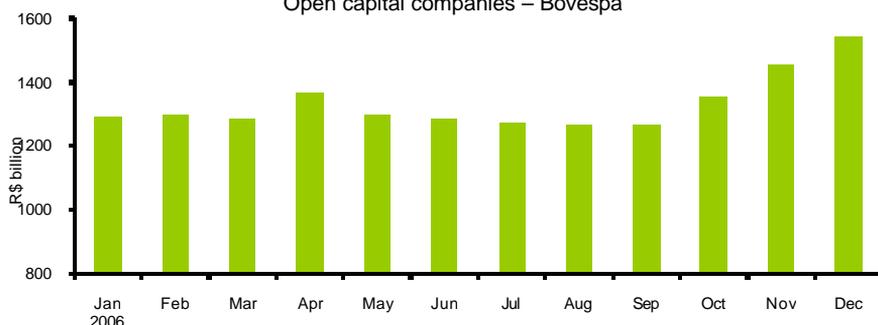
On the primary market, the volume of stock, debenture and promissory note offers reached R\$89 billion in 2006, up 83.3% in the year, as demonstrated by statistics released by the Securities and Exchange Commission (CVM). Here, it is important to highlight 67.2% growth in debenture placements, with a total of

Graph 3.7  
Ibovespa x Dow Jones x Nasdaq



Source: Broadcast

Graph 3.8  
Market value  
Open capital companies – Bovespa

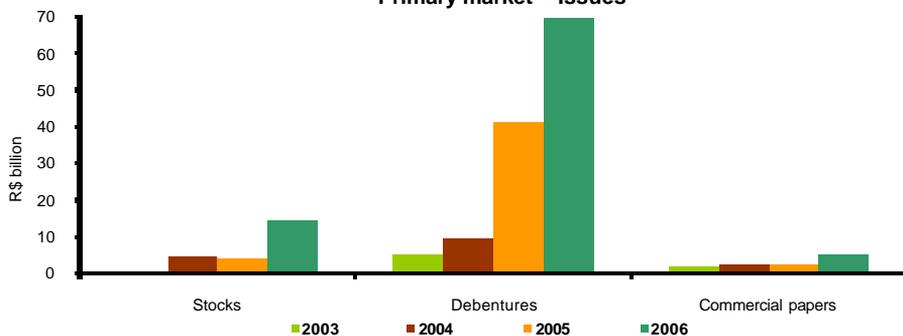


Source: Bovespa

R\$69.5 billion, or 78.1% of total primary issues, together with expansion of 226% in new stock offers, totaling R\$14.2 billion.

At the same time, one must stress that 26 companies made public offers for the first time in 2006, surpassing the cumulative total for the ten previous years. According to data released by Bovespa, the total for that entire period came to only twenty. Funding operations carried out by these companies, considering

Graph 3.9  
Primary market – Issues



Source: CVM

both primary and secondary market issues, totaled R\$15.2 billion in 2006, for growth of 180% in relation to the previous year.

Issues of quotas of Receivables-backed Investment Funds (FIDC) continued on an upward trajectory in 2006, posting a total of R\$12.8 billion, for annual growth of 48.9%. This result takes on added importance when one considers that 2005 had already turned in significant results, with placements of R\$8.6 billion.

The segments of corporate governance continued gaining in importance in 2006. The segments of Level 1, Level 2 and the New Market registered 94 companies in 2006, against 65 in the previous year, representing growth of 45%. Parallel to this expansion, companies with differentiated levels of governance accounted for approximately 60% of total market capitalization of companies listed at Bovespa. The Corporate Governance Index (CGI), which is composed only of companies that have adopted these practices, reflected greater investor demand for companies with higher levels of information disclosure, since the value of these companies rose 41.3% in 2006, surpassing the growth achieved by Ibovespa.

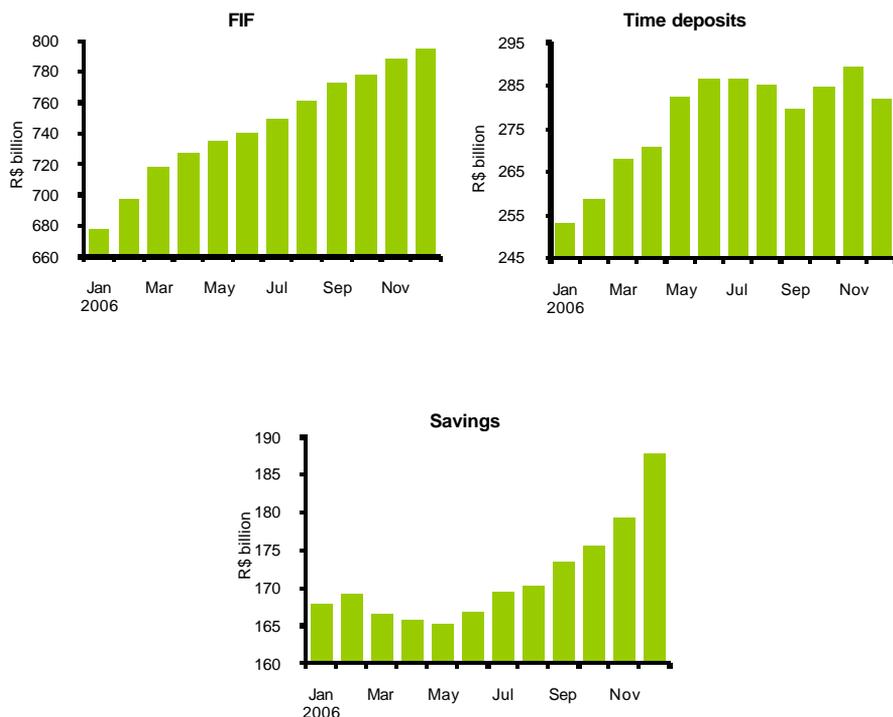
## Financial investments

Considering investment funds, time deposits and savings accounts, the balance of financial investments reached R\$1.3 trillion in December 2006, up 19.6% in the year.

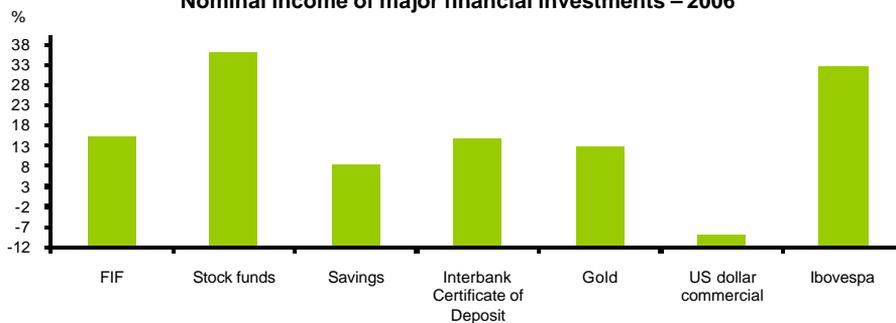
The consolidated net worth of investment funds totaled R\$906.2 billion, for annual expansion of 23.5%. The balance related to the segments of fixed income investment funds, multimarket funds, referenced funds, short-term and exchange funds reached R\$794.9 billion at the end of December, while extramarket funds reached R\$23.2 billion, for annual growth of 21.6% and 13.7%, respectively.

Those funds regulated by CVM Instruction no. 409 showed across-the-board increases in net worth in 2006. However, it is important to stress that expectations of a decline in basic interest rates in a scenario of rising confidence on the part of capital market agents favored growth in the relative participation of multimarket funds, from 21.1%, in 2005, to 23.8%, while participation of fixed income funds and referenced funds dropped from 52% and 23.4% to 51.7% and 21.3%, respectively. Net inflows of multimarket funds totaled R\$25 billion and those of fixed income funds, R\$19.7 billion, accounting for respective levels of 63.8% and 50.2% of the total. In contrast, the other classes of funds showed net withdrawals of R\$5.5 billion in 2006, with a particularly strong negative result of R\$4.3 billion under referenced funds.

Graph 3.10  
**Financial investments – Balances**



Graph 3.11  
**Nominal income of major financial investments – 2006**



Source: Banco Central do Brasil and Broadcast

In December, the consolidated portfolio of these funds was composed of 60.9% public securities, against 66.3% in the previous year. Among securities issued by the National Treasury, mention should be made of growth in the participation of fixed income papers from 33.3% to 40.3%, and of inflation-linked securities from 14.5% to 19.8%, while the participation of other postset securities and exchange-linked securities declined from 51.3% and 0.9%, respectively, to 39.8% and 0.1%. The position in repo operations represented 17.3% of the portfolio, while private securities were responsible for 16.5%, with annual respective growth rates of 3.7% and 0.8%.

The balance of extra market investment funds, which are responsible for administration of the resources belonging to the indirect federal public administration, reached a total of R\$23.2 billion. The annual increase of R\$2.8 billion in total worth basically reflected earnings on investments, since net redemptions in the segment came to only R\$267.3 million in the year.

The worth of stock investment funds totaled R\$88.2 billion, up 47.2% compared to the previous year. The balance of Mutual Privatization Funds (FMP-FGTS) and Mutual Privatization Funds – Free Portfolio (FMP – FGTS – CL) reached R\$11 billion, reflecting the increased value of Petrobras shares and, principally, those of the Vale do Rio Doce Company. Other stock funds obtained R\$6.7 billion and, in the month of December, registered net worth of R\$77.1 billion. In the year, the earnings of stock funds reached 36.1% and, in keeping with the good performance of Ibovespa, became the most profitable financial market investment in 2006.

**Table 3.1 – Nominal income of financial investments – 2006**

Itemization	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	%	
													2005	Memo: 2005
FIF	1.71	1.36	1.30	0.94	0.67	1.29	1.30	1.04	1.13	1.30	1.20	1.28	15.53	17.73
Stock funds	11.06	-1.02	-1.30	4.81	-4.29	-1.07	1.06	-1.71	8.89	4.28	4.85	6.91	36.14	16.81
Savings	0.73	0.57	0.71	0.59	0.66	0.69	0.68	0.74	0.65	0.69	0.63	0.65	8.33	9.18
CDB	1.39	1.11	1.39	1.05	1.25	1.18	1.15	1.21	1.02	1.06	0.99	0.95	14.64	18.53
Gold	5.70	-4.17	3.07	9.18	12.73	-13.31	3.49	-1.80	-5.03	1.69	7.23	-3.87	12.69	2.93
US dollar	-5.33	-3.63	1.73	-3.83	10.11	-5.92	0.55	-1.72	1.66	-1.44	1.11	-1.33	-8.66	-11.82
Ibovespa	14.73	0.59	-1.71	6.36	-9.50	0.27	1.22	-2.28	0.60	7.72	6.80	6.06	32.93	27.71

Source: Banco Central do Brasil, CVM, Bovespa and BM&F

With respect to other financial investments, the balances of savings accounts and time deposits totaled R\$188 billion and R\$282 billion, respectively, at the end of 2006, for annual growth rates of 11.4% and 11.8%, respectively.

Net inflows to savings accounts totaled R\$6.5 billion in 2006, while time deposits registered net redemptions of R\$7.9 billion. The increase in net inflows of savings resulted from their relative profitability compared to other investments, particularly as of the month of September. In 2006, the Basic Financing Rate, which measures average profitability of the 30 largest conglomerates issuing 30 to 35-day CDB/Bank Deposit Receipts (RDB), moved to 14.6%, while savings accounts maturing on the first day of the month earned 8.3%. It is important to observe that savings accounts are exempt from the income tax, independently of the time span covered by the investment, and also from the Provisional Tax on Financial Operations (CPMF) for investments with terms of more than 90 days.

It is important to stress that methodological changes were introduced into calculation of the Reference Rate (TR) reduction factor by CMN Resolution 3,354, which altered the reference of the gradient of parameter b, which began fluctuating according to the value of the Basic Financing Rate (TBF) itself on the reference day, instead of referring to the Selic target. The objective of this measure was to eliminate distortions originating in possible decoupling between the TBF and the Selic target, as a consequence of expectations of reductions in the basic rate of interest.

# IV

## Public Finance

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### Budget, fiscal and tax policy

Approved in the month of May (Law no. 11,306, dated May 16, 2006), the 2006 Annual Budget Law (LOA) was prepared in such a way as to adopt measures of a preventive nature aimed at ensuring that the primary surplus target for the consolidated public sector would be attained. In this context, Decree 5,698 was issued on February 8, 2006, defining the schedule for executive branch budget and financial operations to be followed until such time as the LOA could be approved. Based on the terms of Budget Guidelines Law (LDO), it defined four month targets for the federal government primary surplus. Once the LOA had been sanctioned, Decree no. 5,780, dated May 19, 2006, was issued, defining a new disbursement schedule for the fiscal year and setting aside R\$14.2 billion of the overall amount of expenditures authorized by the National Congress. During the course of the fiscal year, the limits on discretionary spending were expanded as revenue forecasts were confirmed.

Two years after being introduced into the National Congress, Law no. 123, dated December 14, 2006, was approved, instituting the National Bylaws of Micro and Small Businesses. The Bylaws defined a differentiated system of taxation designated the Special Unified Tax and Contribution Collection System to be utilized by micro and small businesses (National Simples). This system unified six federal taxes – the Corporate Income Tax (IRPJ), the Social Contribution on Net Profits (CSLL), the Industrialized Products Tax (IPI), the Contribution to Social Security Financing (Cofins), the Social Integration Program (PIS)/the Civil Service Asset Formation Program (Pasep) and the employer contribution to INSS – with the Tax on the Circulation of Merchandise and Services (ICMS), classified as a state tax, and the Tax on Services (ISS), which is levied by municipalities. It should be stressed that the Simples Federal (Law no. 9,317, dated December 5, 1996), which has been in effect since 1997, was not obligatory for states and municipalities, since it encompassed only simplification of payments of federal taxes.

For purposes of classification within the new tax system, companies with gross annual revenues equal to or less than R\$240,000 are classified as microbusinesses

and those with annual revenues between R\$240,000 and R\$2.4 million as small businesses. The Law also instituted mechanisms designed to facilitate access to business credits, reduce the bureaucracy involved in opening and closing companies and creating positive conditions that would allow these companies to participate in public tenders. As a consequence of operational considerations on the part of the Federal Revenue Secretariat (SRF), the Law will only go into effect on July 1, 2007.

In response to a request put forward by the states with regard to the ICMS, the National Congress approved Law no. 122, dated December 12, 2006, postponing application of the provisions of Law no. 87/1996 (Kandir Law) until January 1, 2011. This law allows companies to deduct from ICMS due the amount of taxes built into the price of merchandise acquired for their own use or consumption, including office and cleaning materials, and into electricity and telephone bills. Currently, the only items that generate ICMS tax credits are acquisitions of raw materials and inputs or, in other words, products that are incorporated directly into the productive process. In the case of electricity, companies are allowed to consider only the amount consumed during the industrialization process.

With issue of Provisional Measure no. 340, dated December 29, 2006, the following alterations were introduced into income tax legislation and the legislation governing federal contributions:

- a) 4.5% correction of the Individual Income Tax (IRPF) table, for generating facts that occurred as of January 1, 2007, as well as the amounts referring to deductions for dependents and education outlays. Aside from this, the tax tables to be utilized in the 2008 to 2010 fiscal years were also announced, all of them being adjusted by 4.5% in relation to the amounts in effect in the previous fiscal year;
- b) expansion of the period for utilizing CSLL credits from 2006 to 2008, at the rate of 25% of accounting depreciation of new machines and equipment incorporated into the fixed assets of the company and utilized in the industrial processes of the acquiring party;
- c) reduction of the CPMF rate to zero on credit operations targeted to anticipated settlement of debts and simultaneous opening of new credit lines at a different financial institution; and on operations of the so-called salary account, which are accounts created exclusively for purposes of receiving salaries, wages, earnings, retirement benefits, pensions and the like;
- d) alterations in Law no. 6,194/1974, which deals with the Obligatory Insurance for Personal Damages Caused by Automotive Vehicles (DPVAT), in such a way as to link the value of the indemnity to be paid to the value of the coverage in effect at the time of the occurrence;
- e) extension until December 31, 2007 of the period in which the National Department of Transportation Infrastructure (DNIT) will be able to utilize

- federal resources in repairs of highways transferred to the states;
- f) institution of installment payment of debts related to the inspection fee charged by the CVM, allowing for a 30% reduction in the legally applicable fines and interest; and
  - g) extension from January 8, 2007 to January 8, 2012 of the period in which the Additional Merchant Marine Freight Fee will not be charged on merchandise in relation to which the origin or final destination is a port located in the north and northeast regions of the country, in cases involving coastal shipping, as well as river and lake transportation.

## Other economic policy measures

With approval of Constitutional Amendment no. 53, dated December 19, 2006, the Fund for the Maintenance and Development of Basic Education and Enhancement of Education Professionals (Fundeb) was created and is scheduled to remain in effect from 2007 to 2020. This Fund substitutes the Fund for the Maintenance of Primary Education and Teaching Enhancement (Fundef), authorized by Constitutional Amendment no. 14, dated September 12, 1996, to be applied in the period extending from 1997 to 2006. Fundeb will benefit 48.1 million public school students, compared to 30 million benefited by Fundef, which benefits only primary school students. Inclusion of preschool and middle school students will be gradual and will be carried out at a rate of 1/3 per year through 2009. Financing of the program will originate in revenues earmarked to Fundef (State and Municipal Revenue-Sharing Funds, ICMS and the IPI-exports) and through incorporation of resources drawn from the Tax on Automotive Vehicle Proprietorship (IPVA), the Tax on Inheritances and Donations (ITCMD) and the Rural Land Tax (ITR). It is estimated that spending in the first year of Fundeb implementation will total R\$43.1 billion, of which the federal government will contribute R\$2 billion. Starting in the fourth year of program execution, the volume of resources is expected to stabilize at R\$55.8 billion, updated in monetary terms every year, while the federal contribution to the Fund will reach 10%.

## Public sector borrowing requirements

In 2006, the primary surplus of the nonfinancial public sector reached R\$90.1 billion, 3.88% of GDP, compared to R\$93.5 billion, 4.35% of GDP, in the previous year.

The GDP reduction of 0.47 p.p. in the year reflected downturns in the results registered by the Central Government, 0.39 p.p. of GDP, and regional governments,

0.14 p.p. of GDP, together with an increase of 0.5 p.p. of GDP in the surplus of state-owned companies. The reduction in the Central Government surplus, which includes the federal government, Social Security System and the Central Bank, indicated increases in the INSS deficit, which reached R\$42.1 billion, 1.81% of GDP, together with more dynamic growth in National Treasury spending.

The Central Government, regional governments and state-owned companies posted a primary surplus of R\$51.4 billion, R\$19.7 billion and R\$19.1 billion, respectively, in 2006, representing 2.21%, 0.85% and the 0.82% of GDP, in that order.

**Table 4.1 – Public sector borrowing requirements**

Itemization	2003		2004	
	R\$ million	% of GDP <sup>1/</sup>	R\$ million	% of GDP <sup>1/</sup>
Total nominal	79 032	4.6	47 144	2.4
Central government <sup>2/</sup>	62 153	3.7	27 033	1.4
States	22 936	1.3	27 497	1.4
Local governments	4 067	0.2	6 485	0.3
State enterprises	-10 123	-0.6	-13 872	-0.7
Total primary	-66 173	-3.9	-81 112	-4.2
Central government <sup>2/</sup>	-38 744	-2.3	-52 385	-2.7
States	-11 916	-0.7	-16 060	-0.8
Local governments	-1 906	-0.1	-1 422	-0.1
State enterprises	-13 608	-0.8	-11 245	-0.6
Nominal interest	145 205	8.5	128 256	6.6
Central government <sup>2/</sup>	100 896	5.9	79 419	4.1
States	34 851	2.1	43 558	2.2
Local governments	5 973	0.4	7 906	0.4
State enterprises	3 484	0.2	-2 626	-0.1

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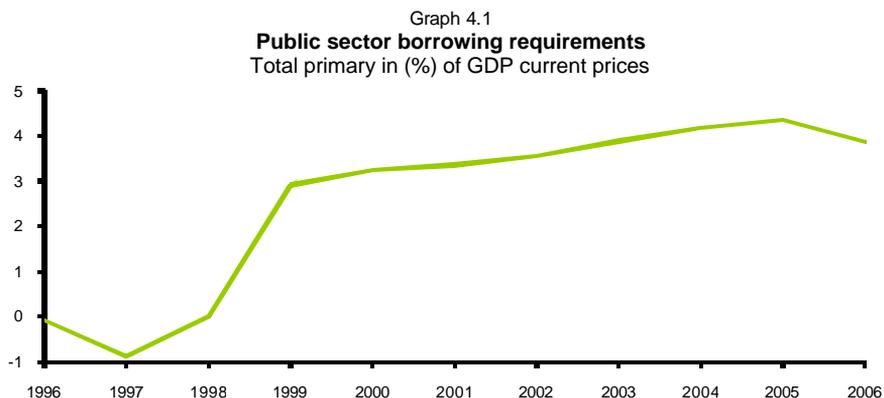
**Table 4.1 – Public sector borrowing requirements (concluded)**

Itemization	2005		2006	
	R\$ million	% of GDP <sup>1/</sup>	R\$ million	% of GDP <sup>1/</sup>
Total nominal	63 641	3.0	69 883	3.0
Central government <sup>2/</sup>	73 284	3.4	74 475	3.2
States	4 755	0.2	13 740	0.6
Local governments	661	0.0	2 867	0.1
State enterprises	-15 060	-0.7	-21 199	-0.9
Total primary	-93 505	-4.4	-90 144	-3.9
Central government <sup>2/</sup>	-55 741	-2.6	-51 352	-2.2
States	-17 194	-0.8	-16 370	-0.7
Local governments	-4 129	-0.2	-3 345	-0.1
State enterprises	-16 440	-0.8	-19 077	-0.8
Nominal interest	157 146	7.3	160 027	6.9
Central government <sup>2/</sup>	129 025	6.0	125 827	5.4
States	21 949	1.0	30 110	1.3
Local governments	4 790	0.2	6 212	0.3
State enterprises	1 381	0.1	-2 121	-0.1

<sup>1/</sup> Current prices.

<sup>2/</sup> Federal Government, Central Bank and National Social Security Institute.

Central Government revenues totaled R\$543.3 billion and spending came to R\$493.5 billion, for annual growth of 11.2% and 13.3%, respectively. Revenues registered growth of 0.7 p.p. of GDP to a level of 23.4%, while spending increased 0.9 p.p. to 21.2%.



**Table 4.2 – Central Government primary result**

R\$ million

Itemization	2004	2005	2006	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Total revenues	419 615	488 376	543 253	16.4	11.2
National Treasury	324 612	378 550	418 161	16.6	10.5
Social security	93 765	108 433	123 521	15.6	13.9
Central Bank	1 237	1 393	1 571	12.6	12.8
Total expenditures	370 250	435 561	493 450	17.6	13.3
National Treasury	242 925	287 844	326 123	18.5	13.3
Transfers to states and municipalities	67 559	83 938	92 779	24.2	10.5
Personnel and social charges	83 655	92 231	105 031	10.3	13.9
Other current and capital expenditures	91 088	111 121	127 616	22.0	14.8
Worker Support Fund	9 881	11 900	15 298	20.4	28.6
Subsidies and economic subventions	5 564	10 333	9 550	85.7	-7.6
Loas/RMV	7 502	9 253	11 639	23.3	25.8
Other capital expenditures	68 141	79 635	91 129	16.9	14.4
National Treasury onlendings to the Central Bank	623	554	697	-11.1	25.8
Social security	125 751	146 010	165 586	16.1	13.4
Central Bank	1 574	1 707	1 741	8.5	2.0
Central government result <sup>1/</sup>	49 365	52 815	49 803	7.0	-5.7
National Treasury	81 688	90 706	92 038	11.0	1.5
Social security	-31 986	-37 577	-42 065	17.5	11.9
Central Bank	-336	-314	-170	-6.7	-45.9
Primary result/GDP – %	2.5	2.5	2.1	-	-

Source: Ministério da Fazenda/STN

<sup>1/</sup> (+) = surplus; (-) = deficit.

National Treasury revenues expanded 10.5% and spending increased 13.3%. The more moderate growth in revenues reflected the process of reducing taxation on productive investments initiated in 2005, a factor of importance to the reduction in the flows of some taxes, particularly the IPI and Cofins. It is important to stress that the performance of nontax revenues was important to maintaining federal government collection capacity at a level similar to 2005. In this context, in this particular group, it is important to highlight the increases achieved in collection of royalties on oil extraction, from R\$15.1 billion to R\$18.6 billion, as well as inflows of resources in the form of dividends, from R\$4.9 billion in 2005 to R\$9.7 billion in 2006, demonstrating the increase in the profitability of state-owned companies. Parallel to these results, inflows consequent upon Exceptional Installment Payments (Paex) – a new program aimed at recovering debts in arrears, approved by Provisional Measure 303/2006 – reached a level of R\$2.4 billion in the year.

More accentuated growth in Treasury spending was concentrated under personnel and payroll charges, 13.9%, and current and capital spending, 14.8%. The increase in outlays on personnel and payroll charges, which moved from 4.3% of GDP in 2005 to 4.5%, resulted from normal payroll growth, granting of differentiated pay raises to some strategic federal public sector careers and hirings of new civil servants. Outlays on current expenditures, which grew from 5.2% of GDP to 5.5%, reflected expansion of 28.1% in budget allocations targeted to unemployment insurance and other programs backed by the Workers Support Fund (FAT), and 26.4% in outlays on social assistance based on the terms of Social Assistance Law (Loas).

The annual surplus registered at the regional government level resulted from contributions of 0.7 p.p. of GDP on the part of state governments and 0.14 p.p. of GDP on that of municipal governments. Parallel to this, the primary result registered by state-owned companies and expressed in terms of participation in GDP was the most significant since 2001.

Nominal interest appropriated on an accrual basis totaled R\$160 billion, 6.89% of GDP, in 2006, against R\$157.1 billion, 7.32% of GDP, in the previous year. The 0.43 p.p. of GDP reduction was impacted by the cumulative downward trajectory of the 12-month Selic rate, which dropped 4 p.p. in 2006, to a level of 15.1%.

However, one should observe that the drop in nominal interest appropriated occurred at a lesser pace than the Selic rate reduction. Basically, this trajectory resulted from three factors: alterations in the net debt profile, a relative increase in the participation of the fixed rate debt, which incorporates past interest rates for a longer period of time; reductions in interest on public-sector financial

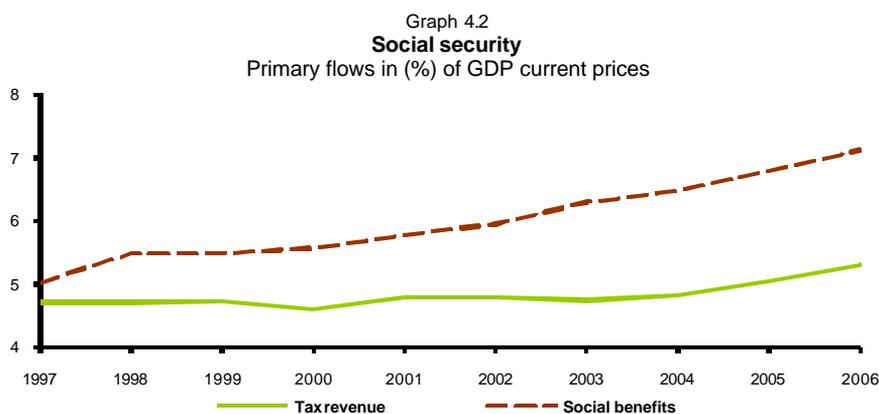
assets; and the result of swap operations. In this scenario, the effects of the Selic rate reduction tend to be intensified in the near future and allow for continued positive growth in the debt/GDP ratio, together with improvements in the liability profile.

The nominal deficit registered by the nonfinancial public sector reached 3.01% of GDP in 2006, compared to 2.96% in 2005. On a segment-by-segment basis, the Central Government deficit totaled 3.21% of GDP, reflecting incorporation

**Table 4.3 – Uses and sources – Consolidated public sector**

Itemization	2005		2006	
	R\$ million	% of GDP	R\$ million	% of GDP
Uses	63 641	3.0	69 883	3.0
Primary	-93 505	-4.4	-90 144	-3.9
Internal interest	143 219	6.7	152 116	6.5
Real interest	132 412	6.2	117 290	5.0
Monetary updating	10 807	0.5	34 825	1.5
External interest	13 927	0.6	7 911	0.3
Sources	63 641	3.0	69 883	3.0
Internal borrowing	136 366	6.3	183 364	7.9
Securities debt	157 016	7.3	155 060	6.7
Banking debt	-34 967	-1.6	7 765	0.3
Renegotiation	-	-	-	-
State government	-	-	-	-
Local government	-	-	-	-
State enterprises	-	-	-	-
Others	14 318	0.7	20 540	0.9
Relationship TN/Bacen	-	-	-	-
External borrowing	-72 726	-3.4	-113 482	-4.9
GDP flows in 12 months <sup>1/</sup>	2 147 944		2 322 818	

<sup>1/</sup> GDP at current prices.



of nominal interest and the INSS primary deficit, while state governments registered a deficit of 0.59% of GDP and municipal governments closed with 0.12% of GDP. State-owned companies closed 2006 with a nominal surplus of 0.91% of GDP.

The Social Security deficit expanded 0.06 p.p. of GDP in 2006. Increases were registered under both revenues, resulting from positive labor market expansion, and benefits, as a consequence of the minimum wage increase and growth in the average monthly number of benefits paid.

With regard to internal sources of public sector financing, the securities debt expanded R\$155.1 billion, equivalent to 6.7% of GDP, while bank debt rose R\$7.8 billion and other sources of internal financing increased R\$20.5 billion. Sources of external financing registered reductions of R\$113.5 billion, equivalent to 4.9% of GDP.

## Federal tax and contribution inflow

Excluding Social Security contributions which are the responsibility of INSS, inflows of federal taxes and contributions in 2006 totaled R\$392.5 billion, against R\$360.7 billion in the previous fiscal year, mirroring real growth of 4.5% in the year when the IPCA is used as deflator.

**Table 4.4 – Gross federal revenues**

Itemization	2004	2005	2006	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax	101 386	124 520	137 375	22.8	10.3
Industrialized Products Tax	22 695	26 428	28 188	16.4	6.7
Import Tax	9 201	9 080	10 036	-1.3	10.5
Financial Operations Tax	5 228	6 103	6 786	16.7	11.2
Contribution to the Financing of the Social Security	77 918	87 615	92 340	12.4	5.4
Social Contrib. on the Profits of Legal Entities	19 957	26 199	28 116	31.3	7.3
Contribution to PIS/Pasep	19 704	22 014	24 277	11.7	10.3
Provisional Contribution on Financial Transactions	26 397	29 273	32 090	10.9	9.6
Contribution on Intervention in the Economic Domain	7 668	7 681	7 818	0.2	1.8
Other taxes	28 193	21 769	25 516	-22.8	17.2
<b>Total</b>	<b>318 347</b>	<b>360 682</b>	<b>392 542</b>	<b>13.3</b>	<b>8.8</b>

Source: Ministério da Fazenda/Receita Federal do Brasil

Payments of the income tax posted real growth of 6% compared to 2005, with a total of R\$137.4 billion, of which R\$72.7 billion consisted of withholdings. Inflows of taxes on wages expanded R\$3.5 billion, followed by taxes on capital, R\$1.5 billion, remittances abroad, R\$1.3 billion, and other earnings, R\$446 million. Growth in withholdings on remittances abroad mostly reflected atypical inflows of R\$326 million related to earnings remitted to persons resident or domiciled abroad in September 2006, together with payments of interest earnings on capital in the amount of R\$385 million in October 2006.

Inflows of the IRPJ and CSLL expanded R\$5 billion and R\$1.9 billion, respectively, compared to the previous year. These figures demonstrate renewal of regular payments that had been interrupted in 2005 as a result of a judicial demand brought by financial sector companies.

The IPI inflow totaled R\$28.2 billion, with real growth of 2.4% in the year. Basically, this performance was associated to increases of 9.8% in the volume of domestic market automobile sales and 24.4% in the dollar value of imports subject to withholding tax.

**Table 4.5 – Income Tax and Industrialized Products Tax**

R\$ million					
Itemization	2004	2005	2006	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Income Tax	101 386	124 520	137 375	22.8	10.3
Individuals	6 136	7 369	8 536	20.1	15.8
Corporate entities	37 710	51 225	56 177	35.8	9.7
Financial institutions	5 575	7 299	9 194	30.9	26.0
Other companies	32 135	43 926	46 983	36.7	7.0
Withholdings	57 540	65 926	72 662	14.6	10.2
Labor earnings	31 420	35 642	39 173	13.4	9.9
Capital earnings	17 161	19 853	21 322	15.7	7.4
Remittances abroad	5 562	6 160	7 450	10.8	20.9
Other earnings	3 397	4 271	4 717	25.7	10.4
Industrialized Products Tax	22 697	26 428	28 188	16.4	6.7
Tobacco	2 305	2 304	2 397	0.0	4.0
Beverages	1 988	2 336	2 618	17.5	12.1
Automotive vehicles	2 939	3 727	4 290	26.8	15.1
Other taxes	10 290	12 773	12 692	24.1	-0.6
Linked imports	5 175	5 288	6 191	2.2	17.1

Source: Ministério da Fazenda/Receita Federal do Brasil

Payments of Cofins reached R\$92.3 billion in 2006, for real growth of 1.3% in the year. Inflows for which financial entities are responsible diminished 13.1%, while those under the responsibility of other companies expanded 2.5%.

The inflow under the heading of other taxes expanded 17.2% in the year and totaled R\$25.5 billion, with emphasis on the R\$3.5 billion increase in royalties on oil extraction, totaling R\$18.6 billion.

## Federal securities debt

Evaluated according to the portfolio position, the federal public securities debt outside the Central Bank reached R\$1,093.5 billion at the end of 2006, 46% of GDP compared to R\$979.7 billion, 45.4% of GDP, in the preceding year. The 0.6 p.p. of GDP increase reflected incorporation of R\$142.4 billion in interest, on the one hand, and total net redemptions of R\$26.4 billion, on the other, coupled with the R\$2.2 billion financial impact of appreciation of the real against the dollar.

Securities for which the National Treasury is liable totaled R\$1,390.7 billion in December 2006, including R\$297.2 billion held by the Central Bank and R\$1,093.5

**Table 4.6 – Federal securities – Portfolio position**

Balances in R\$ million

Itemization	2001	2002	2003	2004	2005	2006
National Treasury liabilities	687 329	838 796	978 104	1 099 535	1 252 510	1 390 694
Central Bank portfolio	189 442	282 730	276 905	302 855	279 663	297 198
LTN	27 970	45 775	101 376	126 184	119 323	164 989
LFT	114 986	145 614	99 646	117 405	120 270	72 737
NTN	44 943	89 664	74 026	57 275	36 823	59 472
Securitized credits	1 543	1 678	1 857	1 990	3 247	0
Outside the Central Bank	497 887	556 066	701 199	796 680	972 847	1 093 495
LTN	48 791	13 596	91 055	159 960	263 436	346 984
LFT	322 153	372 584	443 180	457 757	504 653	412 034
BTN	67	100	74	62	48	39
NTN	87 488	127 399	126 721	133 700	167 379	296 598
CTN/CFT-A/CFT-B/CFT-C/CFT-D/CFT-E	19 367	19 215	18 237	17 344	15 800	14 533
Securitized credits	16 044	15 406	15 001	21 103	16 555	17 793
Agrarian debt	1 689	5 761	4 879	4 345	1 529	1 302
TDA	2 276	2 005	2 052	2 411	3 448	4 213
CDP	11	1	1	0	0	0
Central Bank liabilities	126 198	67 125	30 659	13 584	6 815	0
LBC	-	-	-	-	-	-
BBC/BBCA	-	-	-	-	-	-
NBCE	124 707	67 125	30 659	13 584	6 815	-
NBCF	1 490	-	-	-	-	-
NBCA	-	-	-	-	-	-
Outside the Central Bank – Total	624 084	623 191	731 858	810 264	979 662	1 093 495
In % of GDP	45.7	35.7	42.0	39.8	45.4	46.0

billion on the market. After reaching a total amount of R\$6.8 billion in December 2005, securities issued by the Central Bank were totally redeemed by November 2006.

With respect to the distribution of securities by indexing factor in the total securities debt, the participation of fixed rate securities increased from 27.9% of the total in December 2005 to 36.1% in December 2006, reflecting net issuances of LTN and NTN-F. The participation of floating-rate securities dropped from 51.8% to 37.8%, as a result of net redemptions of LFT. The share of exchange rate-indexed securities dropped from 2.7% to 1.3%, as a result of continued redemptions of Central Bank of Brazil Notes – Special Series (NBCE) and National Treasury Notes – Series D (NTN-D), and appreciation of the real against the dollar. The participation of TR-indexed securities shifted from 2.1% to 2.2%, while that of inflation-linked securities moved up from 15.5% to 22.5%, reflecting net issuance of NTN-B.

**Table 4.7 – Federal public securities**

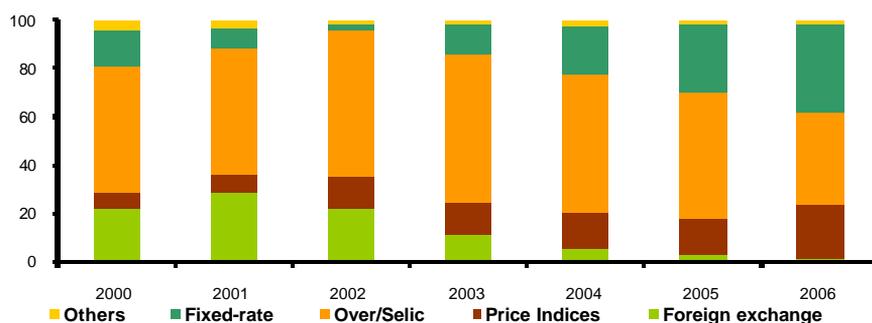
Percentage share by indexing factor – Portfolio position

Indexing factors	2001	2002	2003	2004	2005	2006
Total – R\$ million	624 084	623 191	731 858	810 264	979 662	1 093 495
Foreign exchange	28.6	22.4	10.8	5.2	2.7	1.3
Reference Rate (TR)	3.8	2.1	1.8	2.7	2.1	2.2
IGP-M	4.0	7.9	8.7	9.9	7.5	6.0
Over/Selic	52.8	60.8	61.4	57.1	51.8	37.8
Fixed-rate	7.8	2.2	12.5	20.1	27.9	36.1
TJLP	0.0	0.0	0.0	0.0	0.0	0.0
IGP-DI	3.0	3.1	2.4	1.8	1.1	0.9
INPC	0.0	0.0	0.0	0.0	0.0	0.0
IPCA	-	1.5	2.4	3.1	6.9	15.6
Others	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Alterations in the public debt structure clearly evinced the strategy adopted by the government with the aim of reducing the exposure of public accounts to market risks in general and, specifically, to exchange risks. In this context, the participation of fixed rate securities and exchange rate-indexed securities moved from 22.2% and 22.4%, respectively, at the end of 2002, to 36.1% and 1.3% at the end of 2006.

In 2006, the reverse exposure of Central Bank swap operations continued expanding, reaching R\$26.2 billion in December, against R\$14.8 billion at the end of the previous year. In the period extending from 2002 to 2004, the stock of swap operations reflected market demand for coverage of exchange depreciation

Graph 4.3  
**Federal public securities**  
 Participation by indexing factor

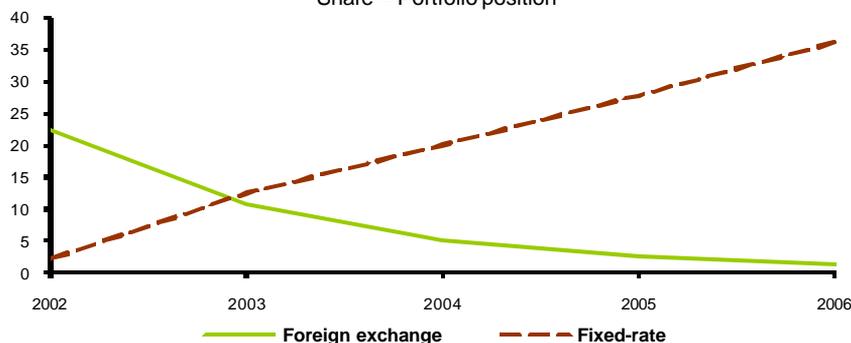


risks and totaled R\$38.3 billion in 2004, after closing 2002 at R\$91.1 billion. Viewed in terms of the cash concept, the cumulative result of 2006 swap operations was equivalent to the difference between DI profitability and exchange variation plus coupon, generating a negative result of R\$5.4 billion for the Central Bank.

## Public Sector Net Debt

The nonfinancial Net Public Sector Debt (PSND) reached R\$1,067.4 billion in 2006, equivalent to 44.9% of GDP, compared to R\$1,002.5 billion, 46.5% of GDP at the end of the preceding year. The decline in the PSND/GDP ratio, on the one hand, revealed contributions of 3.8 p.p. of GDP resulting from the primary surplus and the 4.3 p.p. impact of valued GDP expansion. In the opposite sense, appropriation of nominal interest and adjustments in the parities of the currencies underlying the net external debt resulted in increases in this ratio equivalent to 6.7 p.p. and 0.1 p.p. of GDP, respectively.

Graph 4.4  
**Federal securitized debt structure**  
 Share – Portfolio position



**Table 4.8 – Public sector net debt growth**

Itemization	2003		2004	
	R\$ million	% of GDP	R\$ million	% of GDP
Total net debt – Balance	913 145	52.4	956 996	47.0
Net debt – Growth accumulated in the year	32 037	1.9	43 851	-5.4
Conditioning factors (flows accumulated in the year): <sup>1/</sup>	32 037	1.8	43 851	2.2
Public sector borrowing requirements	79 032	4.5	47 144	2.3
Primary	-66 173	-3.8	-81 112	-4.0
Nominal interest	145 205	8.3	128 256	6.3
Exchange adjustment <sup>2/</sup>	-64 309	-3.7	-16 193	-0.8
Domestic securities debt indexed to exchange rate <sup>3/</sup>	-22 715	-1.3	-3 335	-0.2
External debt	-41 594	-2.4	-12 858	-0.6
External debt adjustment – Others	16 710	1.0	7 137	0.4
Acknowledgement of debt	604	0.0	6 516	0.3
Privatizations	0	0.0	-753	-0.0
GDP Growth effect – Debt <sup>4/</sup>		0.1		-7.5
GDP accumulated in 12 months – Valued <sup>5/</sup>	1 744 124		2 036 737	

(continues)

**Table 4.8 – Public sector net debt growth (concluded)**

Itemization	2005		2006	
	R\$ million	% of GDP	R\$ million	% of GDP
Total net debt – Balance	1 002 485	46.5	1 067 363	44.9
Net debt – Growth accumulated in the year	45 488	-0.5	64 879	-1.5
Conditioning factors (flows accumulated in the year): <sup>1/</sup>	45 488	2.1	64 879	2.7
Public sector borrowing requirements	63 641	2.9	69 883	2.9
Primary	-93 505	-4.3	-90 144	-3.8
Nominal interest	157 146	7.3	160 027	6.7
Exchange adjustment <sup>2/</sup>	-18 202	-0.8	-4 881	-0.2
Domestic securities debt indexed to exchange rate <sup>3/</sup>	-4 554	-0.2	-2 222	-0.1
External debt	-13 648	-0.6	-2 659	-0.1
External debt adjustment – Others	-2 258	-0.1	2 302	0.1
Acknowledgement of debt	3 262	0.2	-375	-0.0
Privatizations	-954	-0.0	-2 049	-0.1
GDP Growth effect – Debt <sup>4/</sup>		-2.6		-4.3
GDP in R\$ million <sup>5/</sup>	2 158 072		2 376 513	

1/ Net accumulated debt growth as percentage of GDP when considering all factors taken together GDP, divided by the current GDP accumulated in the last 12 month period valued, calculated by the formula:

$(\text{ConditioningFactors} / \text{GDPAccumulatedIn12Months}) * 100$ . It does not reflect debt growth as percentage of GDP.

2/ It indicates the sum of the monthly impacts up to the reference month.

3/ It includes adjustment of rate between the basket of currencies composing international reserves and the external debt as well as other adjustments in the external area.

4/ It takes into account the change in the ratio debt/GDP due to growth observed in GDP, calculated by the formula:  $Dt-1 / (\text{GDP current month} / \text{GDP base month}) - Dt-1$ .

5/ Annual GDP at December prices adjusted by the centered IGP-DI deflator (geometric mean of IGP-DI growth in the month and in the following month).

In terms of PSND composition, emphasis should be given both to the reduction of 5 p.p. of GDP in the net external debt and to the increase of 3.5 p.p. of GDP in the net internal debt. The net external debt shifted into a creditor balance position.

The Gross General Government Debt (GGGD), which includes the federal government, Social Security System and regional governments, closed 2006 at R\$1,556.5 billion, 65.5% of GDP, against R\$1,453.6 billion, 67.4% of GDP, in 2005. The net general government debt moved from R\$1,010.2 billion, 46.8% of GDP, to R\$1,091.3 billion, 45.9% of GDP, in the same period.

**Table 4.9 –Public Sector Net Debt**

Itemization	2005		2006	
	R\$ million	% of GDP	R\$ million	% of GDP
Fiscal net debt (G=E-F)	763 347	35.4	833 230	35.1
Internal debt adjustment (F)	121 472	5.6	119 249	5.0
Fiscal net debt with exchange devaluation (E=A-B-C-D)	884 819	41.0	952 479	40.1
External debt adjustment (D)	80 080	3.7	79 723	3.4
Asset adjustment (C)	103 021	4.8	102 646	4.3
Privatization adjustment (B)	-65 436	-3.0	-67 485	-2.8
Total net debt (A)	1 002 485	46.5	1 067 363	44.9
Federal government	660 186	30.6	727 319	30.6
Central Bank	4 038	0.2	8 481	0.4
States	305 714	14.2	316 864	13.3
Local governments	44 341	2.1	47 073	2.0
State enterprises	-11 794	-0.5	-32 373	-1.4
Domestic debt	952 185	44.1	1 130 902	47.6
Federal government	488 154	22.6	591 211	24.9
Central Bank	129 277	6.0	191 592	8.1
States	292 734	13.6	304 318	12.8
Local governments	42 191	2.0	45 139	1.9
State enterprises	-171	0.0	-1 359	-0.1
External debt	50 300	2.3	-63 538	-2.7
Federal government	172 032	8.0	136 108	5.7
Central Bank	-125 238	-5.8	-183 111	-7.7
States	12 979	0.6	12 545	0.5
Local governments	2 150	0.1	1 934	0.1
State enterprises	-11 623	-0.5	-31 015	-1.3
GDP in R\$ million <sup>1/</sup>	2 158 072		2 376 513	

<sup>1/</sup> Annual GDP at December prices adjusted by the centered IGP-DI deflator (geometric mean of IGP-DI growth in the month and in the following month).

## Social Security System

In 2006, the General Social Security System (RGPS) registered a deficit of R\$42.1 billion, 1.81% of GDP, against R\$37.6 billion in the previous year, with 1.75% of GDP.

Net Social Security revenues, excluding transfers to third parties, increased 13.9% in 2006, closing at R\$123.5 billion, 5.3% of GDP. Annual growth of 0.3 p.p. of GDP revealed the increase from 40% to 60% in the participation of the Social Security System in Simples revenues, as of January 1, 2006, together with the impact of the expanding formal labor market on payroll contributions.

**Table 4.10 – Gross and net government debt<sup>1/</sup>**

Itemization	2005		2006	
	R\$ million	% of GDP	R\$ million	% of GDP
Public sector net debt	1 002 485	46.5	1 067 363	44.9
Net general government debt	1 010 241	46.8	1 091 255	45.9
Gross general government debt	1 453 608	67.4	1 556 476	65.5
Internal gross debt	1 262 915	58.5	1 405 889	59.2
Foreign gross debt	190 692	8.8	150 587	6.3
Federal government	175 563	8.1	136 108	5.7
State government	12 979	0.6	12 545	0.5
Local government	2 150	0.1	1 934	0.1
Assets of general government	-443 367	-20.5	-465 221	-19.6
Internal assets	-439 836	-20.4	-465 221	-19.6
Available assets of general government	-229 630	-10.6	-247 406	-10.4
Investment of social security system	-347	-0.0	-231	-0.0
Tax collected (not transferred)	-882	-0.0	-1 204	-0.1
Demand deposits	-5 533	-0.3	-5 528	-0.2
Available assets of fed. govern. in Central Bank	-208 476	-9.7	-226 047	-9.5
Investment in the banking system (states)	-14 393	-0.7	-14 396	-0.6
Investment in funds and financial programs	-60 729	-2.8	-56 090	-2.4
Credits with public enterprises	-23 180	-1.1	-20 421	-0.9
Other federal government's credits	-23 271	-1.1	-18 654	-0.8
Worker Assistance Fund (FAT)	-103 026	-4.8	-122 650	-5.2
Foreign credits	-3 531	-0.2	0	0.0
Federal government	-3 531	-0.2	0	0.0
State government	-	-	-	-
Local government	-	-	-	-
Central Bank net debt	4 038	0.2	8 481	0.4
Public enterprises net debt	-11 794	-0.5	-32 373	-1.4
GDP in R\$ million <sup>2/</sup>	2 158 072		2 376 513	

<sup>1/</sup> It includes federal, state and local government debt with other economic agents, comprising the Central Bank.

<sup>2/</sup> Annual GDP at December prices adjusted by the centered IGP-DI deflator (geometric mean of IGP-DI growth in the month and in the following month).

Spending on Social Security benefits totaled R\$165.6 billion, 7.1% of GDP, for growth of 13.4% compared to the previous year. Annual growth of 0.3 p.p. of GDP reflected both expansion of 8.4% in the average value of benefits, which reached R\$545.90, as a result of a minimum wage increase and 5% growth in benefits paid above the floor value; as well as 2.7% expansion in the total number of benefits paid, with a total of 24.2 million in 2006.

Benefits of an assistance nature expanded 6% in value terms during the year, particularly involving Loans payments to the elderly, 12.9%, and handicapped, 7.3%. Retirement benefits by reason of age, incapacitation and time of contribution increased 3.4% in the year.

It should be emphasized that assistance payments paid to the elderly registered the strongest growth following the reduction in the age limit for classification from 67 to 65 years, as instituted by the Law on the Elderly.

## State and municipal finance

In 2006, the ICMS inflow registered real growth of 8.6%, using the IGP-DI as deflator, posting a total of R\$171.7 billion. Of this total, 64.5% were concentrated in the states of São Paulo, Minas Gerais, Rio de Janeiro, Rio Grande do Sul and Paraná, which are the states responsible for the largest volumes of inflows during the year in that order.

**Table 4.11 – Social Security – Cash flow**

Itemization	2004	2005	2006	% Change	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Revenues	160 000	172 713	201 757	7.9	16.8
Banking inflow	101 126	115 954	133 016	14.7	14.7
Other revenues	2 610	882	1 368	-66.2	55.1
Revenue anticipation	6 885	10 324	-359	-	-
Federal government transfers	49 380	45 553	67 732	-7.7	48.7
Expenditures	151 742	171 796	200 507	13.2	16.7
Social security benefits	125 751	146 009	165 585	16.1	13.4
Other benefits	8 168	10 001	12 332	22.4	23.3
Other expenditures	10 463	8 267	13 097	-21.0	58.4
Transfers to third parties	7 360	7 519	9 493	2.2	26.3
Cash result	8 259	917	1 250	...	...
Social Security balance	-31 985	-37 574	-42 062	...	...

Source: Ministry of Labor and Social Assistance

In the state of São Paulo, which collects the highest volume of this tax, the ICMS inflow totaled R\$57.8 billion, with 13.3% real growth compared to 2005. This performance was favored by inflows from the sectors of production and distribution of fuels, electricity, communications services and industrial services. At the same time, mention should be made of the contribution made by rising domestic demand, particularly in terms of household consumption. Evidently, this is a reflection of highly positive economic conditions.

In the state of Rio de Janeiro, inflows of the tax reached R\$14.8 billion in 2006, for real growth of 8.5% in the year. The strongest growth occurred under retail and wholesale supermarket activities, 26.4%; distribution of electricity, water and gas, 13.3%; textiles and apparel, 12.1%; and communications services, 8.8%. Taken together, these segments of activity accounted for 39.7% of the overall tax inflow in the state.

Transfers to states and municipalities increased 10.5% in 2006, closing with an overall total of R\$92.8 billion or 4% of GDP. The determining factors underlying annual growth of 0.1 p.p. of GDP were the reduced impact of tax reductions implemented during the period on the volume of transfers; the R\$1.9 billion increase in transfers carried out under the heading of petroleum royalties, reflecting high international market prices for this product and expanding national output; and R\$6.8 billion growth in State and Municipal Revenue Sharing Funds, generated by growth in the basis of calculation which is composed of the income tax and IPI inflows.

**Table 4.12 – Payment of the Tax on the Circulation of Merchandise and Services (ICMS)**

Itemization	R\$ million				
	2004	2005	2006	Change %	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
São Paulo	45 922	51 001	57 788	11.1	13.3
Rio de Janeiro	13 052	13 396	14 805	2.6	10.5
Minas Gerais	13 222	15 638	17 018	18.3	8.8
Rio Grande do Sul	9 638	11 383	11 813	18.1	3.8
Paraná	7 824	8 760	9 264	12.0	5.8
Bahia	7 133	7 831	8 604	9.8	9.9
Santa Catarina	5 258	5 829	6 169	10.9	5.8
Goiás	3 978	4 224	4 699	6.2	11.2
Pernambuco	3 667	4 314	4 864	17.6	12.8
Espírito Santo	3 732	4 636	5 092	24.2	9.8
Other states	24 511	27 807	31 553	13.4	13.5
Total	137 938	154 818	171 669	12.2	10.9

Source: Ministry of Finance/Confaz

**Table 4.13 – Federal government onlendings to states and municipalities**

R\$ million

Itemization	2004	2005	2006	% Change	
	(a)	(b)	(c)	(b)/(a)	(c)/(b)
Constitutional onlendings (IPI, IR and others)	51 138	63 756	70 628	24.7	10.8
Export Compensation Fund	4 295	4 757	4 343	10.8	-8.7
Cide transfers	1 109	1 776	1 781	60.1	0.3
Others <sup>1/</sup>	11 015	13 648	16 028	23.9	17.4
Total	67 557	83 937	92 780	24.2	10.5

Source: Ministry of Finance/National Treasury Secretariat

<sup>1/</sup> Contribution of Education Wage, Fundef, petrol royalties and other onlendings.

# 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 Corrientes, Argentina, in response to an outbreak of the disease in that region. Imports of semen and meat not subjected to maturation processes were 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 (Depository Receipts – DR), and 2,763/2000 (Brazilian Depository 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						Balance banks abroad with (net) <sup>1/</sup> (D)	Balance (E) = (C) + (D)	
	Commercial			Financial					
	Exports	Imports	Balance	Purchases	Sales	Balance			
	(A)			(B)					(C) = (A)+(B)
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**

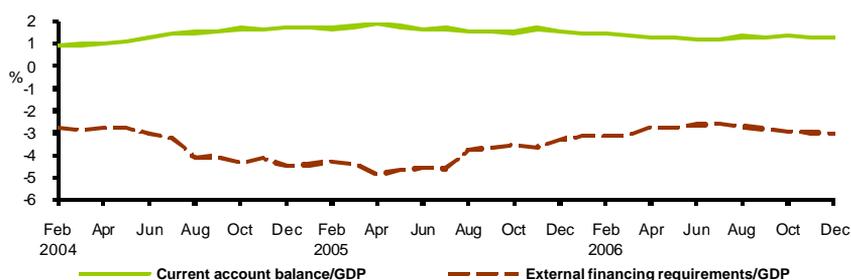
US\$ million

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 <sup>1/</sup>	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 <sup>2/</sup>	-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 <sup>3/</sup>	16 896	16 365	33 261	12 146	20 807	32 953

<sup>1/</sup> Includes migrants' transfers.<sup>2/</sup> Includes trade credits, loans, currency and deposits, other assets and liabilities and exceptional financing.<sup>3/</sup> 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.

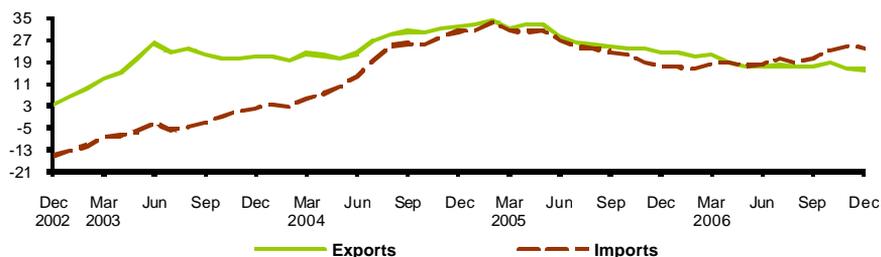
**Table 5.3 – Trade balance – FOB**

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



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

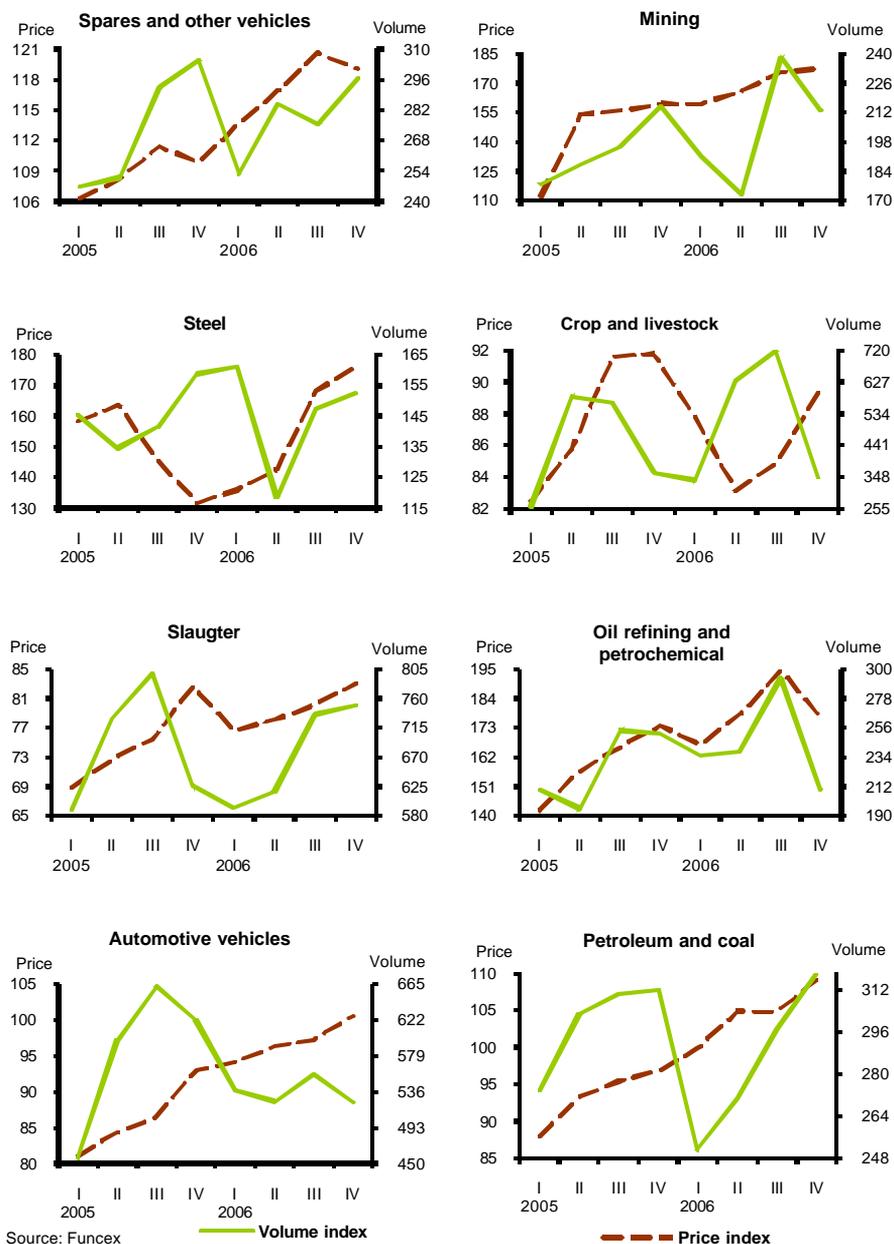
change from the previous year (%)

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



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.

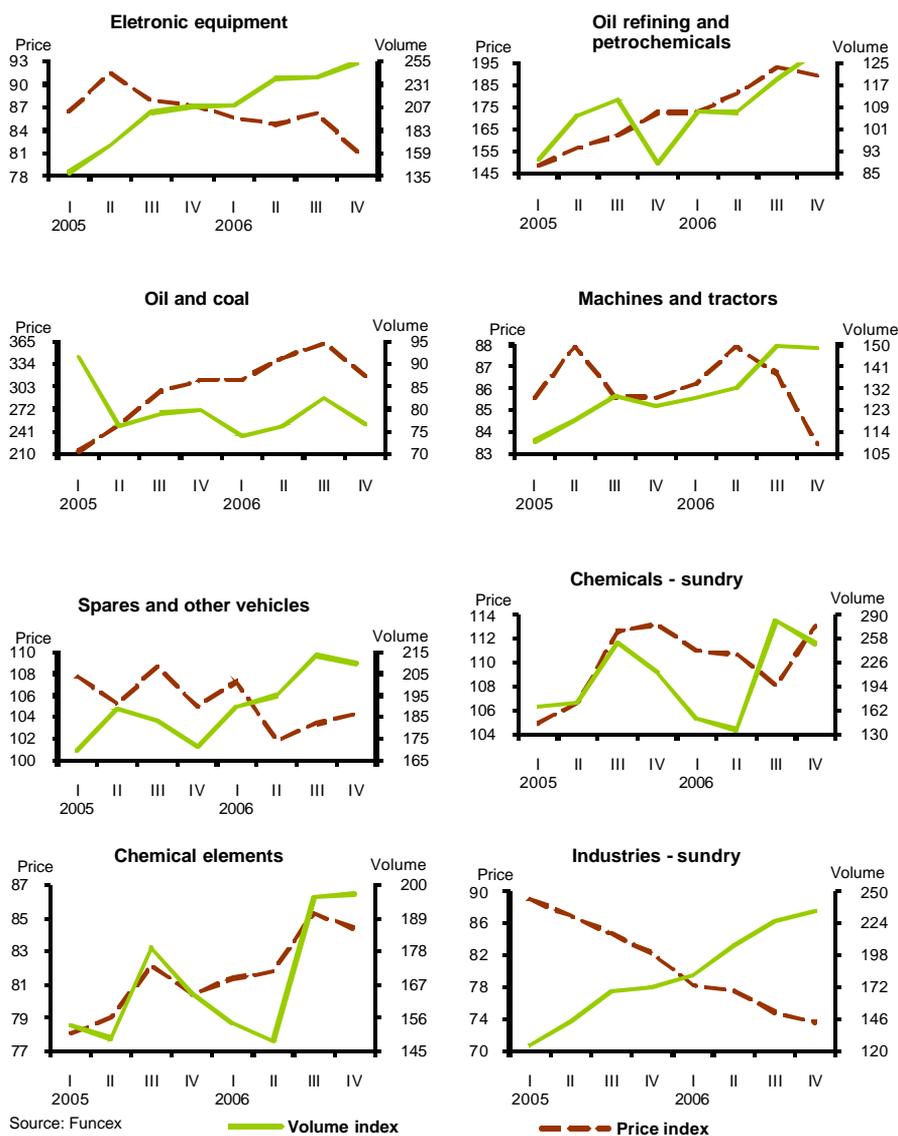
The imported volume of raw materials and intermediate goods increased 15.7%, against 6% in 2005, while prices rose 3.5%, compared to 7.3% in the previous year. Here, the highlights were increases in imported volumes of mineral products, parts and spares, nonfood crop/livestock products and food products 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



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

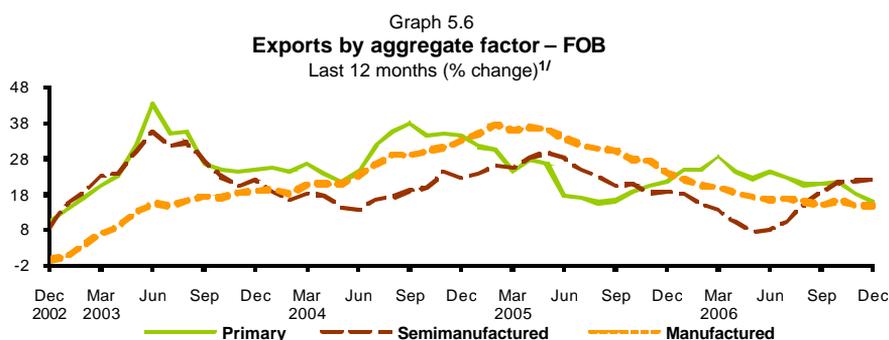
With regard to the evolution of imported volume in the eight major imports sectors, only oil and coal turned in reductions, with 5.3%. The sharpest growth occurred in the imported volumes of diverse industrial sectors, 38.9%; electronic equipment, 31%; oil refining and petrochemical products, 16.6%;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



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 <sup>1/</sup>	Weight <sup>2/</sup>	Participation <sup>3/</sup>
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
Copper 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

<sup>1/</sup> Percentual change of the unit value in US\$/kg terms.

<sup>2/</sup> Percentual change of weight in kilograms.

<sup>3/</sup> 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 <sup>1/</sup>	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

<sup>1/</sup> 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 <sup>1/</sup>	Weight <sup>2/</sup>	Participation <sup>3/</sup>
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 lengthwise	-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

<sup>1/</sup> Percentual change of the unit value in US\$/kg terms.

<sup>2/</sup> Percentual change of weight in kilograms.

<sup>3/</sup> 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 <sup>1/</sup>	Weight <sup>2/</sup>	Participation <sup>3/</sup>
Passenger motor vehicles	5.4	12.7	-6.5	6.2
Airplanes	3.1	-7.9	12.0	4.3
Parts and accessories 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, propylene and styrene	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 technological 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 technology	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 technology	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 technology	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 technology	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**

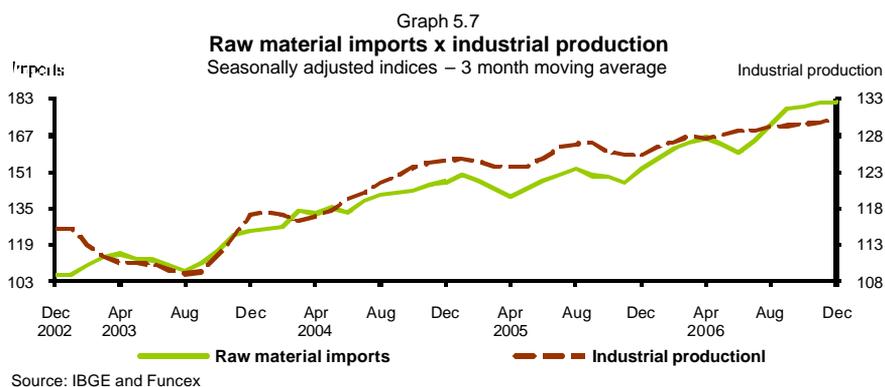
US\$ million					
Itemization	2002	2003	2004	2005	2006
Total	47 237	48 305	62 813	73 606	91 396
Capital goods	11 643	10 351	12 133	15 387	18 912
Raw materials and intermediate product	23 446	25 825	33 503	37 804	45 286
Consumer goods	5 908	5 538	6 861	8 484	11 996
Durable	2 508	2 417	3 188	3 928	6 078
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.



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 <sup>1/</sup>	Weight <sup>2/</sup>	Participation <sup>3/</sup>
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

<sup>1/</sup> Percentage change of the unit value in US\$/kg terms.

<sup>2/</sup> Percentage change of weight in kilograms.

<sup>3/</sup> Percentage participation in each end-use category total.

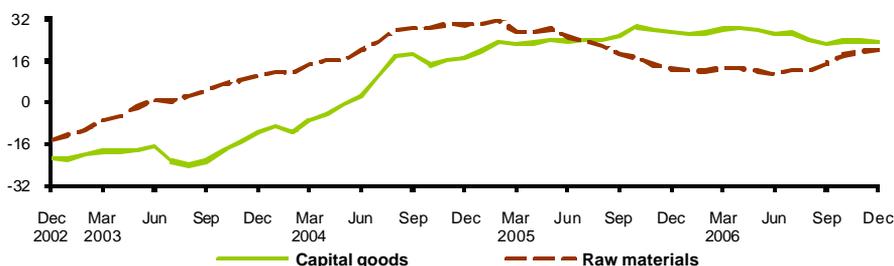
Average daily purchases from Asia, the second most important bloc of origin of raw materials and intermediate product imports, reached US\$43 million, 23.4% of the total of this category. Imports posted growth of 32.6% over 2005, accounting for 46.3% of the total acquired from the countries of the region and 11.6% of total Brazilian external purchases in 2006. The major products in this category imported from Asia were integrated circuits and electronic microboards, 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)<sup>1/</sup>



Source: MDIC/Secex

<sup>1/</sup> 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 <sup>1/</sup>	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.

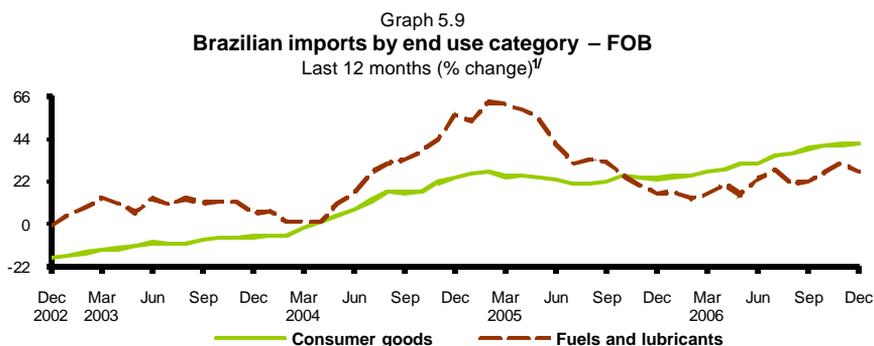
Capital goods originating in the Laia countries added up to US\$5 billion per day, with growth of 32.2% compared to 2005. This total represented 7.1% of imports originating in the region and 6.1% of the category as a whole and was concentrated under cargo vehicles; measurement and verification instruments 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%.



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 <sup>1/</sup>	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 <sup>2/</sup>	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 <sup>3/</sup>	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

<sup>1/</sup> Iceland, Liechtenstein, Norway and Switzerland.<sup>2/</sup> Excludes the Middle East.<sup>3/</sup> 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

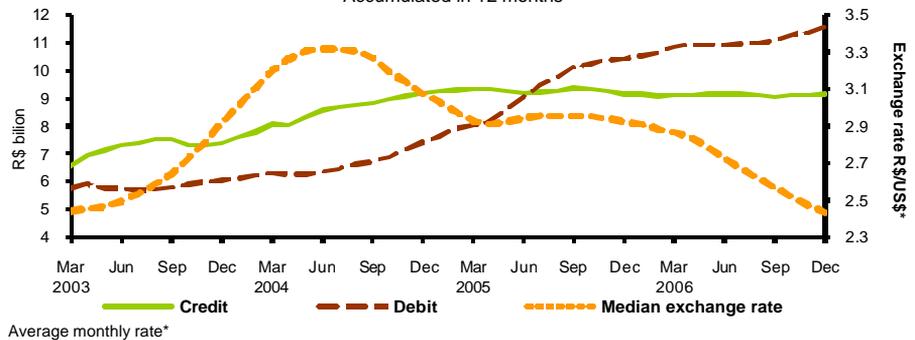
Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-3 556	-4 753	-8 309	-4 066	-5 343	-9 408
Credit	7 513	8 535	16 047	9 134	10 304	19 438
Debit	11 069	13 287	24 356	13 199	15 647	28 847
Transportation	-776	-1 174	-1 950	-1 248	-1 632	-2 881
Credit	1 495	1 643	3 139	1 600	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



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 <sup>1/</sup>	-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 <sup>1/</sup>	-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

<sup>1/</sup> 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<sup>1/</sup>**

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

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

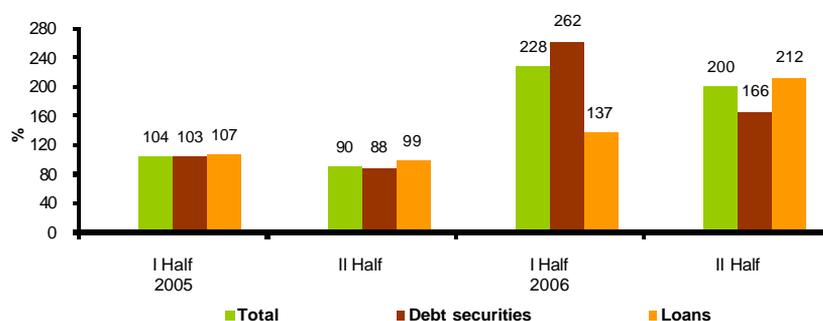
in global flows to a level of US\$1.2 trillion, slightly less than the record total of US\$1.4 trillion in 2000. Growth in the flow of foreign direct investment to developed countries reached 47.7%, coupled with 10% inflows to the developing nations. Clearly these figures reflect the unequal distribution 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<sup>1/</sup>**

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**

Itemization	US\$ million					
	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 <sup>1/</sup>**

## 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 <sup>2/</sup>	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 <sup>3/</sup>	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 <sup>4/</sup>	60	68	128	43	306	350
Computing and related activities <sup>5/</sup>	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

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

<sup>1/</sup> 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 Depository 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

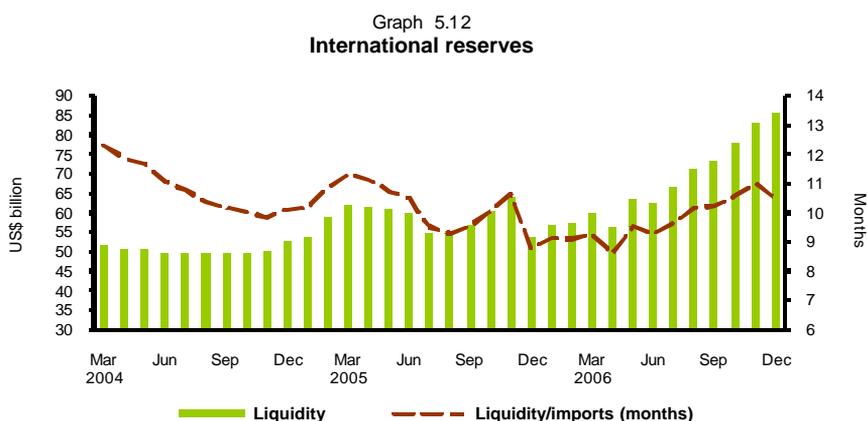
Itemization	2005			2006		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	503	-5 538	-5 035	-3 039	-126	-3 165
Loans	-1 056	-784	-1 840	-1 092	-1 761	-2 853
Long term	-1 048	-824	-1 872	-1 206	-1 764	-2 970
Credit	722	1 347	2 069	788	725	1 513
Debit	1 770	2 171	3 941	1 993	2 490	4 483
Short term (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.



**Table 5.32 – Brazil: Financial flow by foreign creditor – Selected items <sup>1/</sup>**

US\$ million				
Itemization	2003	2004	2005	2006
IBRD <sup>2/3/</sup>	-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 <sup>3/</sup>	-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 <sup>4/</sup>	-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

<sup>1/</sup> Does not include suppliers.

<sup>2/</sup> Includes IFC.

<sup>3/</sup> Includes loans and trade financing.

<sup>4/</sup> 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**

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 <sup>1/</sup>	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) <sup>2/</sup>	-1 413	2 743	-2 092
Adjusted net reserves (excludes IMF loans) <sup>3/</sup>	27 541	...	...
Adjusted net reserves – according to the IMF arrangement	25 321	...	...

<sup>1/</sup> 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).

<sup>2/</sup> 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.

<sup>3/</sup> 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 concept has 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 <sup>1/</sup>**

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

<sup>1/</sup> 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<sup>1/</sup>**

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 <sup>2/</sup>	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 <sup>3/</sup>	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 <sup>4/</sup>	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

<sup>1/</sup> 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.

<sup>2/</sup> 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.

<sup>3/</sup> Includes pré-bradies (BIB).

<sup>4/</sup> 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 <sup>1/</sup>	Bank loans	Notes <sup>2/</sup>
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)

Debtor	Outstanding: 12.31.2006			
	Creditor			Total
	Government agencies	Suppliers credits	Others	
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 securitized 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	-	-	-	-	-
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 (guaranteed by the public sector)	328	225	128	98	89
<b>Total</b>	<b>121 450</b>	<b>131 646</b>	<b>125 418</b>	<b>96 686</b>	<b>85 622</b>
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<sup>1/</sup>

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<sup>1/</sup>

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

<sup>1/</sup> Includes exceptional financing.

**Table 5.40 – Registered external debt – By creditor**

Amortization schedule <sup>1/</sup>						
US\$ million	Outstanding debt	2007	2008	2009	2010	2011
Itemization						
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 <sup>2/</sup>	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)**

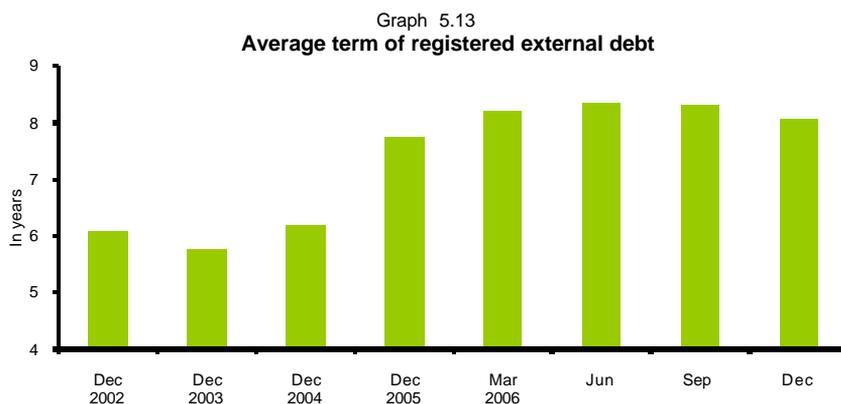
Amortization schedule <sup>1/</sup>						
US\$ million	Outstanding: 12.31.2006					
Itemization	2012	2013	2014	2015	2016	Beyond and arrears
A. Total debt (B+C)	8 850	9 362	5 563	8 651	7 269	37 107
B. Medium and long-term debt	8 850	9 362	5 563	8 651	7 269	37 107
International entities	3 331	2 035	1 409	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 <sup>2/</sup>	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

<sup>1/</sup> Includes exceptional financing.<sup>2/</sup> Includes commercial papers and securities.

**Table 5.41 – Average maturity term**

Registered external debt <sup>1/</sup>		
US\$ million	2006	Average maturity (years)
Itemization		
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

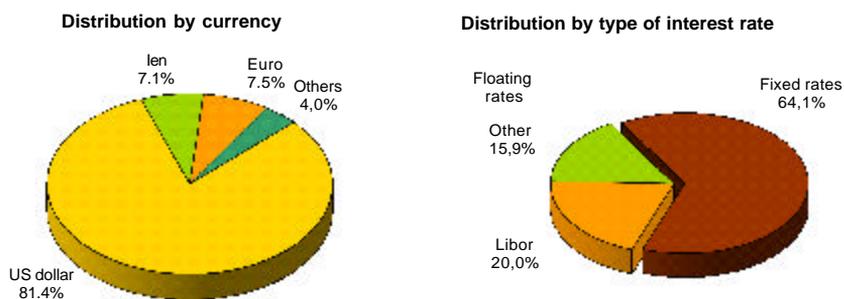
<sup>1/</sup> Excludes debt in arrears.



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<sup>1/</sup>**

US\$ million					
Itemization	2002	2003	2004	2005	2006
Debt service	49 893	52 988	51 800	66 048	56 858
Amortizations <sup>2/</sup>	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) <sup>3/</sup>	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

<sup>1/</sup> 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.

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

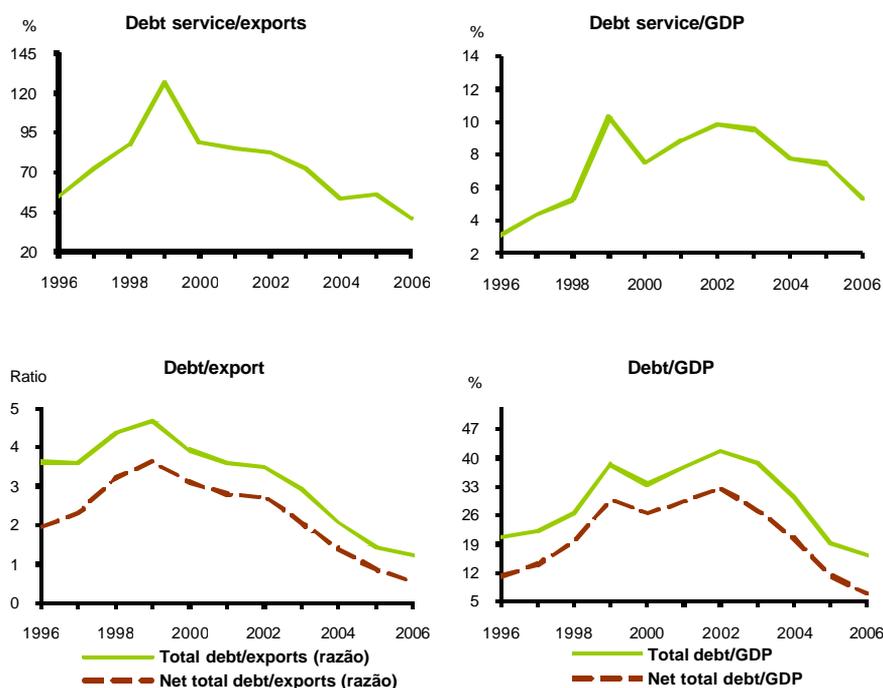
<sup>3/</sup> Export Financing Program (Proex).

## 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.v.	Spread over U.S. Treasury <sup>1/</sup> basis points
Euromarco 07	2.26.1997	2.26.2007	10	592	8.000		242
Global 27 <sup>2/</sup>	6.9.1997	6.9.2027	30	3 500	10.125	10.90	395
Euroaira <sup>3/</sup>	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 <sup>4/</sup>	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 <sup>5/</sup>	3.6.2000	3.6.2030	30	1 600	12.250	12.90	663
Global 07 <sup>6/</sup>	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 <sup>7/</sup>	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 <sup>8/</sup>	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	Libor 3m	359
					+5,76	+ 5,94	

(continues)

**Table 5.43 – Issues of the Republic (concluded)**

Global 14 <sup>9/</sup>	7.14.2004	7.14.2014	10	1 250	10.500	10.80	538
Euro 12 <sup>10/</sup>	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 weighted by the value of each tranche.

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

3/ The inflow occurred on two dates: IRL500 billion, on 6.26.1997; and IRL250 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
<b>Total</b>	<b>355</b>	<b>-</b>

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.

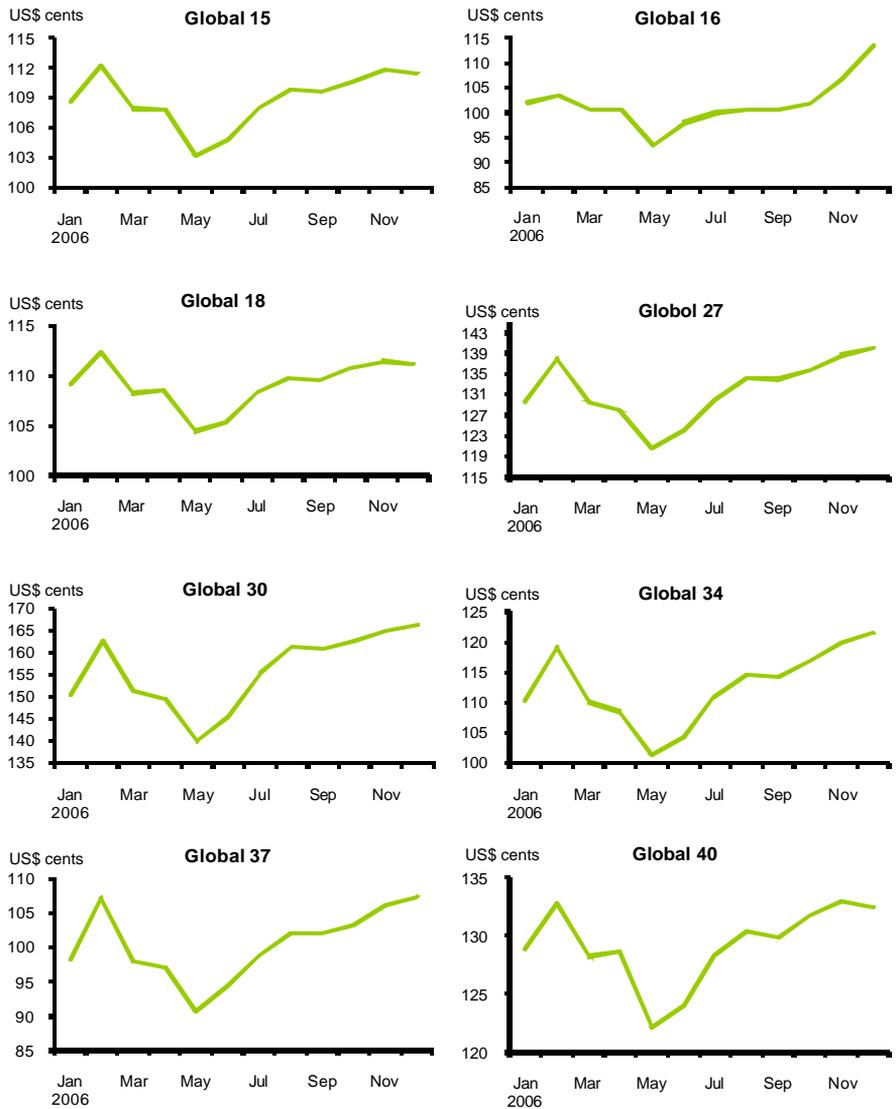
The restructured external debt totaled US\$355 million in December 2006, down US\$7.1 billion compared to December 2005. The major share of this reduction was due to the Brady bond call operation in April 2006. Consequently, the remaining balance of the restructured external debt in December 2006 refers 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

**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 <sup>1/</sup>	54 027	65 418	71 793
Intercompany loans	15 169	13 842	15 256
Portfolio investment <sup>2/</sup>	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)

investments.

**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 <sup>1/</sup>	142 451	177 024	199 140
Intercompany loans	18 808	18 537	22 775
Portfolio investment <sup>2/</sup>	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	-	-	-

<sup>1/</sup> Includes reinvested earnings.

<sup>2/</sup> 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.

## The International Economy

Driven by the robust performance of the United States economy and by accelerated growth in the major emerging countries, particularly China and India, the world economy continued expanding at a solid pace in 2006. The economies of Japan and the Euro Area confirmed the sustainability of their recovery processes and expanded at more rapid rates than in 2005. The major economic regions managed to post simultaneous low rates of inflation and unemployment.

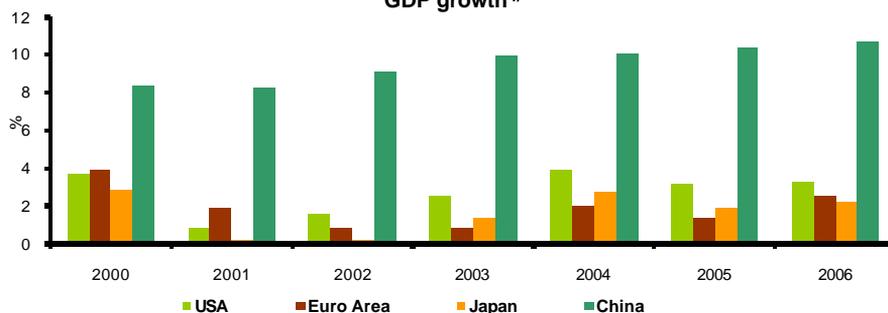
Despite higher oil prices and gradual elimination of monetary incentives from the economies of the various developed countries, annual overall GDP growth closed at 4.9%, according to the IMF estimates, a level approximately equal to the 2005 result. The real estate market decline had a negative impact on United States GDP, above all in the second half of the year. However, its impacts on other sectors of the economy were not significant. In much the same manner, the economic slowdown in the United States in the second half of the year did not generate any significant effects on other countries.

### Economic activity

Evolution of the activity level in the United States over the course of 2006 was driven by a slowdown in the real estate market, following exhaustion of the cycle of rising property values, coupled with gradual increases in mortgage interest rates. The prices of residential real estate remained relatively stable during the year, with sharp declines in sales and, above all, in new housing starts. These figures generated a decline of 4.2% in the GDP component referring to residential investments. One should note that, in the final quarter of the year, the performance of real estate sales and the expectations index of residential real estate developers indicated the possibility of stabilization in the sector.

With the evolution of consumer spending in 2006, favored by declining oil prices in the second half of the year and by a highly positive job market, unemployment dropped from 4.9% to 4.5%, as 2.26 million new job openings were created. This was the determining factor underlying 3.3% GDP growth in 2006 in the US economy. This result, which was slightly higher than in 2005, also reflected 7.3% expansion in nonresidential investments and 8.9% growth in exports.

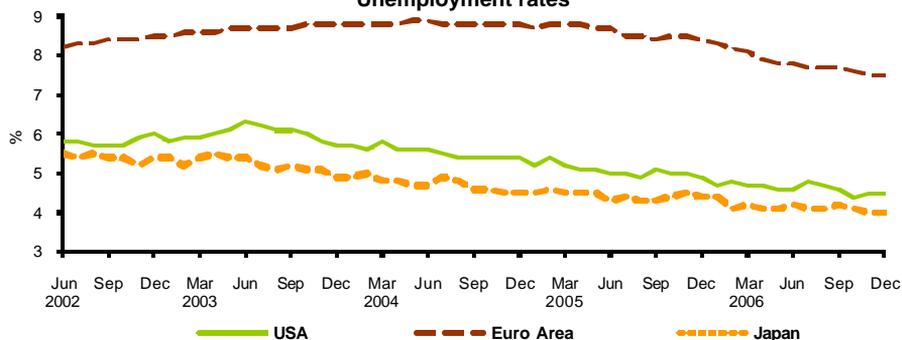
Graph 6.1  
GDP growth<sup>1/</sup>



Source: Bureau of Economic Analysis, Eurostat, Economic and Social Research Institute, Bloomberg  
1/ Annual growth.

In the Euro Area, economic recovery gained added momentum in 2006, in an environment of growing business optimism and modest, albeit steady, growth in consumer spending. Both of these factors became elements of growing importance as determinants of the activity level. GDP expanded 2.6%, the best result since 2000 and was driven by positive expansion in both exports and investments. Economic recovery aided in lowering the unemployment rate from 8.4% at the end of 2005 to 7.5% in December 2006. In Germany, the major economy of the region, recovery was strengthened as much by the economic impact of the World Cup, as by a strong tendency to anticipate consumption to the end of the year, as a result of the increase in the tax on aggregate value scheduled to go into effect in January 2007.

Graph 6.2  
Unemployment rates



Sources: Bureau of Labor Statistics, Eurostat, Ministry of Internal Affairs and Communications

The sustainability of the process of economic recovery in Japan was reinforced by consumer spending which, though lower than in the previous two years, was still decisive to overcoming the long period of price deflation. With regard to business performance, processes of capital restructuring, high levels of profitability and renewed business optimism stimulated growth in gross fixed capital formation. In this context, the Japanese economy expanded 2.2%, following 1.9% in 2005. These rates were quite significant when compared to previous

years and well above the rate of potential product growth. The job market continued expanding steadily, as unemployment closed 2006 at 4% and the number of job openings was greater than the number of candidates.

China continued expanding at an accelerated pace and was one of the major factors driving world economic activity, despite continued adoption of measures aimed at reducing liquidity and excessive investment in specific sectors of the economy, aimed at ensuring a sustainable growth trajectory. In 2006, GDP expanded 10.7%, the highest level since 1995. This result was a consequence not only of external demand, as evident in the record trade surplus, but also of a 24% increase in fixed investments in urban areas. Domestic consumption continued expanding, registering annual growth of 13.7% in retail sales.

According to estimates released by the Economic Commission for Latin America and the Caribbean (Cepal), which operates under the auspices of the United Nations (UN), economic growth in Latin America reached 5.3% in 2006. Just as in previous years, this performance was driven by the impact of steady expansion in the global economy on the exports of the major Latin American nations. Furthermore, the performance turned in by the region reflected the contribution of domestic demand, with growth of 6% in consumer spending, generated by declining unemployment and a 10.5% rise in investments. At the same time, the external sustainability of the major economies evolved positively, as a result of cutbacks in external indebtedness and accumulation of international reserves, coupled with macroeconomic consolidation resulting from growing price stability, gradual adjustment in their fiscal accounts and continued economic recovery.

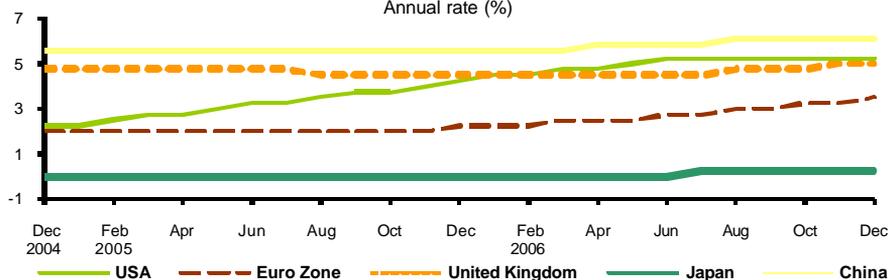
## Monetary policy and inflation

In the United States, in a framework of the start of an economic slowdown, upward movement in the Consumer Price Index (CPI) and GDP-Personal Consumer Spending (PCS) in the first half of 2006, led the Federal Reserve to continue its policy of raising the Fed fund target, which closed June at 5.25% per year.

After reaching a level of 4.3% per year in July, the CPI turned downward and closed October at 1.3% per year. This benign scenario, which resulted from an oil price decline and a slowdown in both the real estate market and economic activity, allowed the Fed to avoid alterations in its interest rate policy over the course of the second half of the year, despite the fact that unemployment remained below 5% and the PCS core above 2% per year. This alteration in monetary policy occurred when real interest reached 2.9% per year, deflated by the PCS. This marked the end of a cycle of monetary contraction that had begun in June 2004

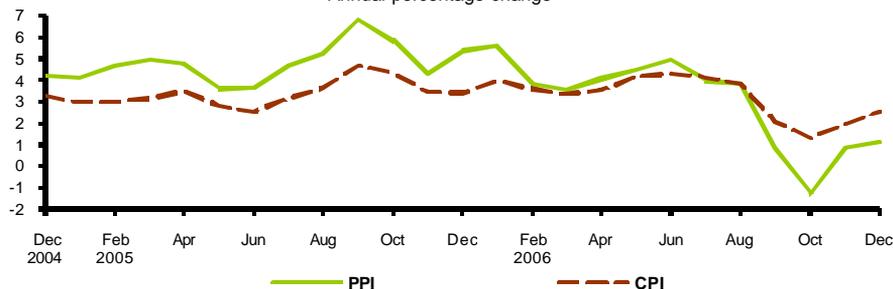
and continued through 17 consecutive Federal Open Market Committee (FOMC) meetings.

Graph 6.3  
Official interest rates<sup>1/</sup>  
Annual rate (%)



Source: USA – FED, Euro Area – ECB, United Kingdom – BoE, Japan – BoJ and China – PBoC  
1/ USA – fed funds, Euro Area – minimum bid rate, United Kingdom – securities repurchase, Japan – Overnight call rate and China – 1-year working capital.

Graph 6.4  
USA: Inflation<sup>1/</sup>  
Annual percentage change

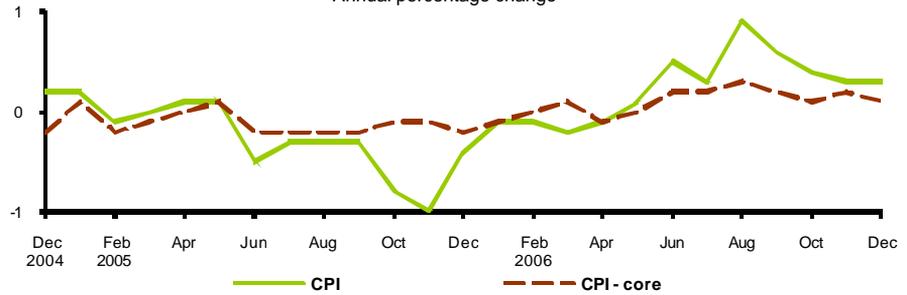


Source: Bureau of Labor Statistics  
1/ Producer and consumer prices.

In March 2006, the Bank of Japan (BoJ) once again prioritized monitoring of interest rates as the principal monetary policy instrument, in detriment to a policy of greater quantitative flexibility in effect since 2001. With this position shift, the bank began to focus its attention on maturities of 1 to 2 years and to consider the interval between 0 and 2% per year as the reference for price stability.

This new posture adopted by the monetary authority had the objective of eliminating excess liquidity and guarantying a 0% overnight rate. However, when the Bank of Japan considered such factors as non-negative consumer prices since May, well distributed economic expansion between external and internal demand, reductions in excess output capacity, a tight labor market, record credit levels for the last 10 years and projections that prices would continue on a positive trajectory, the institution decided to raise the overnight rate 25 basis points in the month of July and to hold it at that level until the end of 2006.

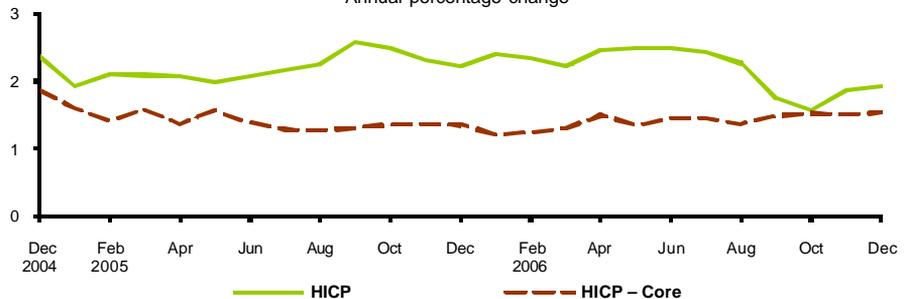
Graph 6.5  
**Japan: Inflation<sup>1/</sup>**  
 Annual percentage change



Source: Bloomberg  
 1/ Consumer prices.

In 2006, the European Central Bank (ECB) continued its policy of monetary restraint begun in December 2005 and, in the first half of the year, implemented a 2.5 b.p. increase in the refi rate. The objective of this decision was not only to curtail inflation, then above 2% per year, but particularly to restrict the money and credit supply and avoid formation of real estate-based bubbles. Considering that these increases have been insufficient to curtail expansion in the volume of bank loans, the ECB increased the pace of its activities in the second half of the year and raised interest rates every two months. At the end of the year, the refi rate reached 3.50% per year.

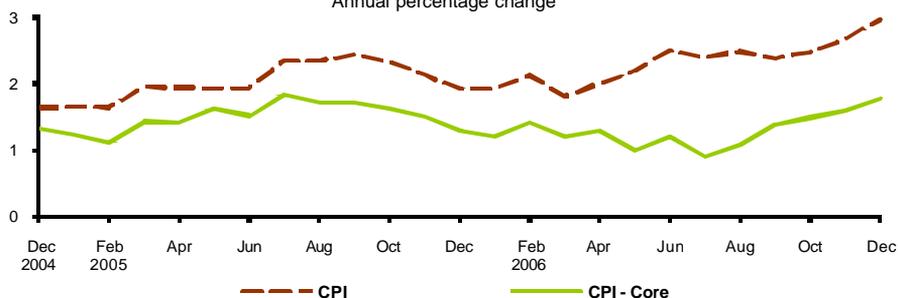
Graph 6.6  
**Euro Area: Inflation<sup>1/</sup>**  
 Annual percentage change



Source: Bloomberg  
 1/ Consumer prices.

Contrary to predominant expectations at the end of 2005, inflation in the United Kingdom moved upward in 2006. Despite a decline in oil prices, this process became more intense in the second half of the year and evinced the increase in taxes and expansion of outlays on food and education, as growth in the cumulative 12-month consumer price index set a record level of 3% in December. In this scenario of rising inflation, marked by significant growth in the credit supply, a high level of utilization of installed output capacity and deteriorating expectations with respect to inflation, the Bank of England (BoE) implemented two repo rate increases of 0.25 p.p., closing November at 5% per year.

Graph 6.7  
**United Kingdom: Inflation<sup>1/</sup>**  
 Annual percentage change

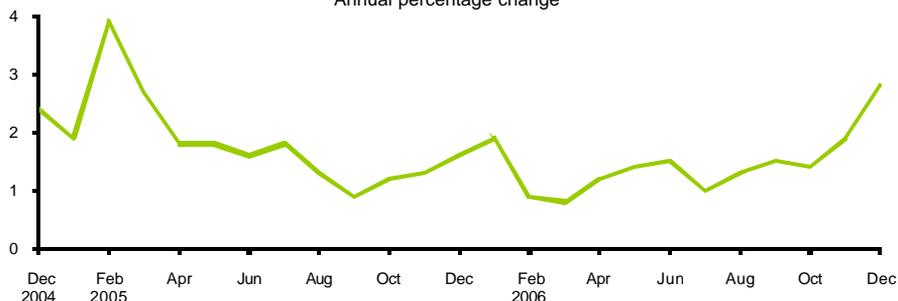


Source: Bloomberg  
 1/ Consumer prices.

A trade surplus of more than US\$177 billion had a significant impact on liquidity and credit growth in the Chinese financial system and resulted in adoption of a series of restrictive measures by the People's Bank of China (PBC). In this framework, one should stress the increase in bond issues aimed at avoiding formation of asset bubbles and sterilizing currency. Interest rates were held to 6.12% per year and the reserve requirement rate demanded of commercial banks increased to 9%.

Despite continuity of the policy of administrative price controls, that had only been partially relaxed in 2006, coupled with excess output capacity in various sectors of the economy (vehicles, apparel, steel, aluminum and cell phones), together with adoption of restrictive monetary measures, inflation remained high during the entire second half of the year, driven mainly by a 2.8% per year increase in food prices in the month of December.

Graph 6.8  
**China: Inflation – Consumer prices**  
 Annual percentage change



Source: Bloomberg

## International financial market

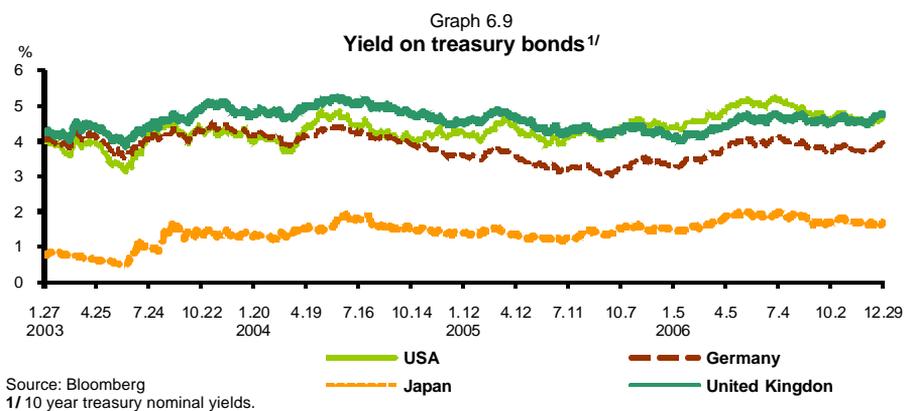
During most of 2006, international financial markets showed considerable liquidity and low levels of risk aversion. It was only in the two-month period ended

in June that volatility began increasing in a generalized manner, while investor risk perceptions increased, generating adverse impacts, particularly on the assets of the emerging economies.

Long-term interest rates remained low, generally just a bit higher than those registered at the end of 2005 despite the fact that the central banks of the major economies had raised their short-term interest rates. This fact provoked increased horizontalization, particularly in the Euro Area and Japan, and even reversals in the forward interest rate structure, as occurred in the USA and United Kingdom.

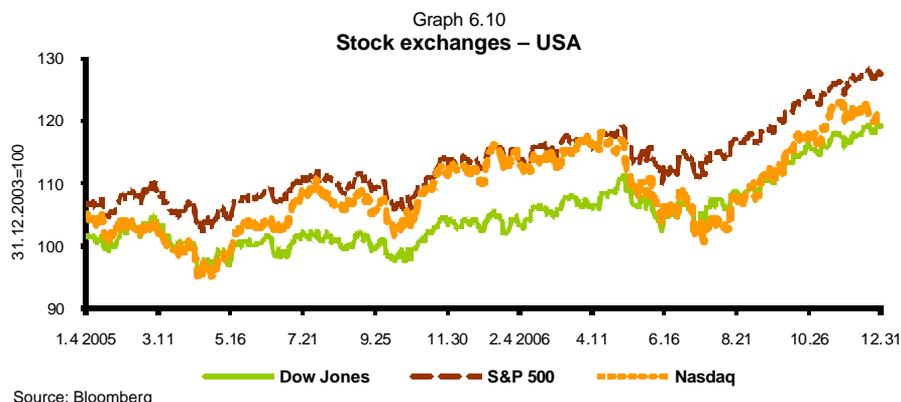
The persistence of low levels of earnings on long-term securities can be attributed as much to excess liquidity as to increased confidence in the work of the central banks of both the developed and emerging economies. These institutions have clearly reaffirmed their commitment to price stability, with highly positive impacts on the volatility of inflation expectations.

In the United States, average annual earnings on 10-year Treasury Bonds reached 4.78% in 2006, as against 4.28% in 2005. Earnings on the corresponding securities of the European and Japanese economies showed similar performances in the period, with annual rates on 10-year bonds issued by Germany, the United Kingdom and Japan increasing from respective levels of 3.38%, 4.42% and 1.39% to 3.78%, 4.5% and 1.75%, in that order.

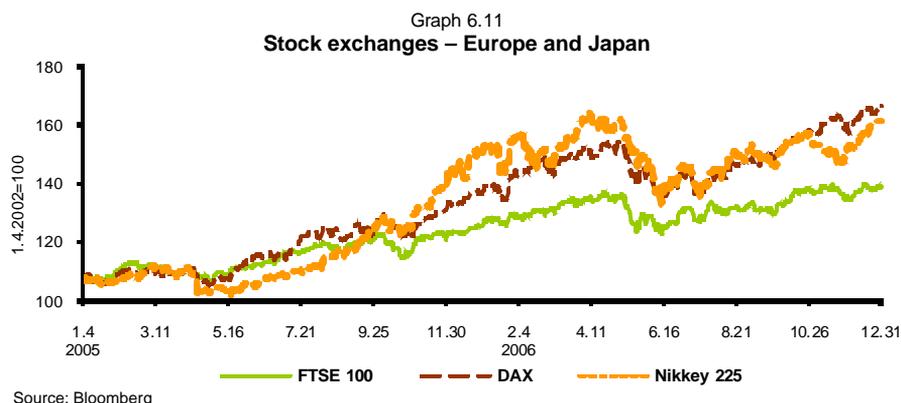


Stock exchanges turned in positive evolution in 2006. Increases in stock values were driven by positive indicators of corporate profits and were significantly impacted by excess liquidity and low levels of risk perception during practically the entire year. In the USA, the Dow Jones index after remaining stable in 2005 rose 16.3% in 2006, while the corresponding indices for England (FTSE 100) and Germany (DAX) increased at respective rates of 10.7% and 22%, compared to 16.7% and 27.1% in 2005. In Japan, the Nikkei index advanced 6.9% against 40.2% in the previous year. Among the emerging economies, it is important to

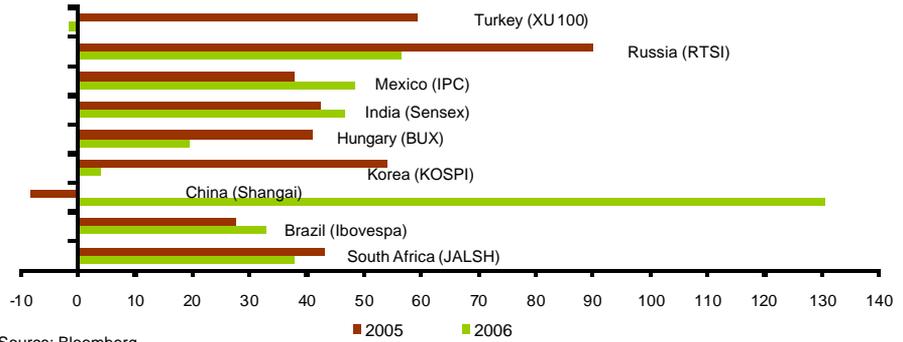
stress the composite index of the Shanghai exchange, which evolved 130.4% in 2006, compared to a reduction of 8.3% in the previous year. The Russian Trading System Index – RTSI, the Mexican Índice de Precios y Cotizaciones – IPC and the Brazilian Ibovespa expanded 56.4%, 48.6% and 32.9%, respectively, against 90%, 37.8% and 27.7%, in 2005.



As global monetary policy became more restrictive, uncertainties regarding the impact on the world’s activity level intensified. In the period extending from May 10 to June 28, financial markets began including additional price increases in the Fed fund rate, above and beyond the levels previously anticipated. This situation generated a wave of devaluation among financial assets, particularly those of the emerging economies considered more sensitive to market moods. In that period, the Dow Jones (USA), DAX (Germany) and Nikkei (Japan) reached maximum levels of devaluation of 8%, 13.8% and 17.3% in that order, while the Ibovespa (Brazil), the RTSI (Russia) and the Istanbul Stock Exchange National 100 Index (XU100-Turkey) devalued at rates of 21.8%, 30.1% and 28.3%, in that order.



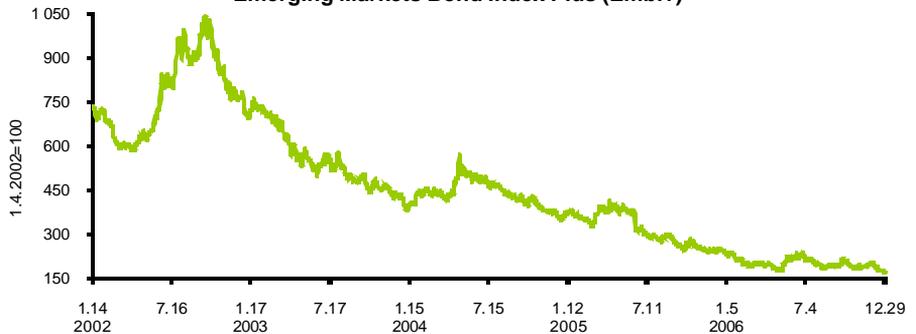
Graph 6.12  
**Stock exchanges – Emerging markets**  
 Percentual change in 2005 and 2006 in local currency



Source: Bloomberg

In 2006, the spreads practiced on credit markets remained at historically low levels. The risk indicator associated to Embi+ registered an average of 199 points in the year, against 316 points in 2005. This trajectory was favored by a reduction in the external exposure of several emerging countries, by low levels of earnings on fixed yield assets in central financial markets and by market receptivity to increased risk exposure, generated by still excessive liquidity. The Embi+ of Brazil, Mexico, Russia and Turkey registered reductions of 38.3%, 22.2%, 18.6% and 7.2% in that order between the end of 2005 and the end of 2006. For the very first time, the indicator for Brazil closed the year below 200 points.

Graph 6.13  
**Emerging Markets Bond Index Plus (Embi+)**



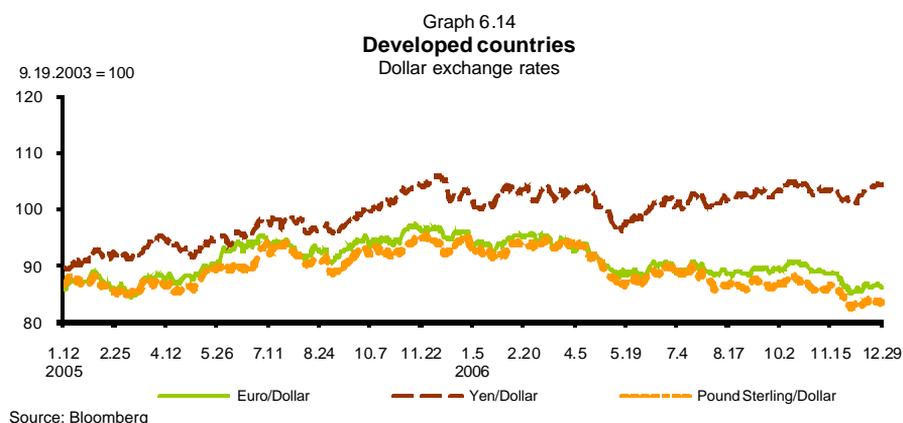
Source: Bloomberg

Upward movement in the value of financial assets during the major part of the year had a positive impact on financing of the large and still growing current account deficit in the American economy. Notwithstanding the increase in risk aversion in May and June 2006, this factor ensured continued high levels of net foreign capital flows to the emerging economies.

Parallel to the improvement in growth tendencies in the major developed economies, particularly in Europe and, to a lesser extent, in Japan, to steady expansion in international trade, and to increasingly higher commodity prices,

generating corresponding cumulative trade balance surpluses in the emerging economies, this scenario has contributed significantly to depreciation of the dollar against the major international payment currencies and the most important currencies of the emerging economies.

Average dollar values when viewed against the euro, pound sterling and yen in December 2006 were 10.2%, 11.1% and 0.8%, respectively, below the averages for December of the preceding year.

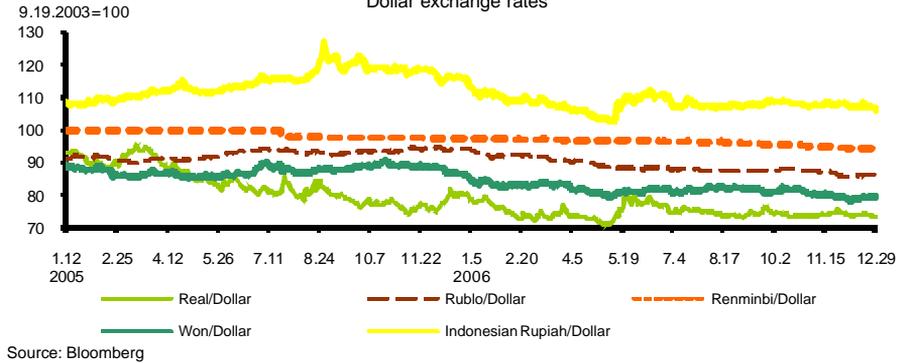


The periods of sharpest depreciation of the dollar against the euro and the pound sterling between April and May and between October and December 2006 coincided, in the first case, with more intense expectations regarding interruption of the process of elimination of the monetary stimulus by the US central bank and, in the second case, with relative strengthening of economic activities in European economies compared to the USA.

Though the dollar depreciated 8.1% against the yen in the period extending from April to May 2006, notwithstanding the first increase in the Japanese basic interest rate, the value of the American currency turned upward against the yen as of the month of July and closed the year at a level quite close to that observed at the end of 2005. One of the factors that influenced performance was weakening of the level of Japanese economic activity, resulting in postponement of expectations regarding new increases in the basic interest rate. At the end of December, a more optimistic view of economic performance in the USA also contributed to appreciation of the dollar, even though economic indicators in Japan were somewhat more satisfactory.

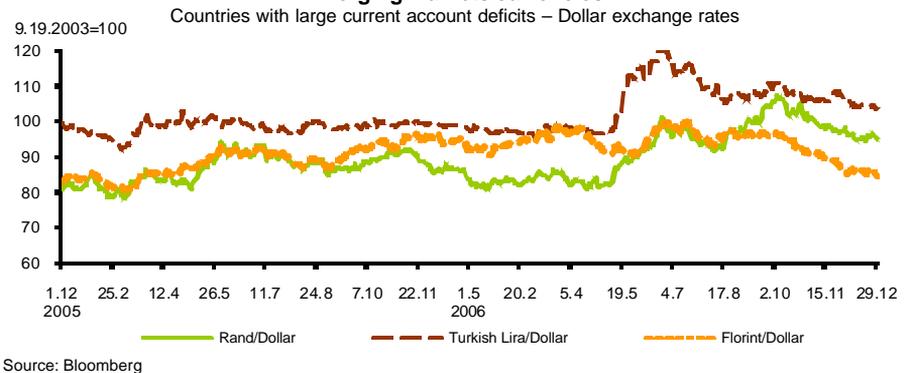
The dollar also tended to depreciate against the currencies of several emerging countries, particularly in light of the more flexible exchange systems adopted by emerging Asian countries, preference shown by various emerging European nations for exchange rate management based on the euro and comfortable current

Graph 6.15  
Emerging markets currencies  
Dollar exchange rates



account and financial account positions in the other emerging economies. According to the evolution of average monthly values between December 2006 and December 2005, the United States dollar depreciated at respective rates of 9.5%, 8.7%, 7.7%, 6% and 3.1% against the South Korean won, the Russian ruble, the Indonesian rupiah, the Brazilian real and the Chinese renminbi. The period of greatest risk aversion had a temporary impact on the values of the real and Indonesian rupiah against the dollar, resulting in episodic appreciation of the dollar, equivalent to 14.2% and 8.7%, respectively.

Graph 6.16  
Emerging markets currencies

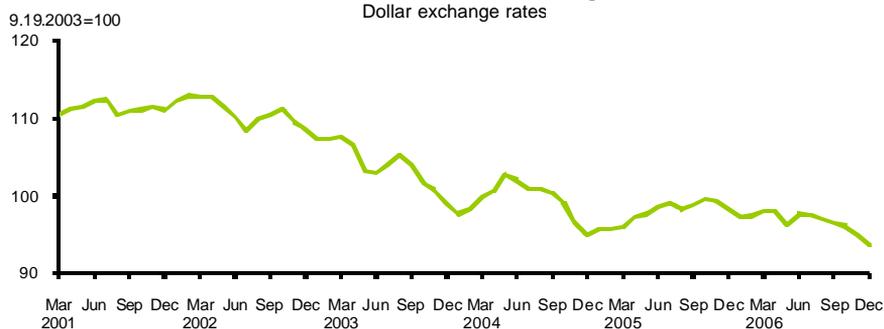


However, for other emerging countries, particularly those with high current account deficits and dependence on short-term capital for financing purposes, particularly Turkey and South Africa, the period extending from May to June was particularly volatile. Capital flight and declining prices for financial assets in their markets caused not only prolonged exchange market tension, but also macroeconomic policy adjustments, particularly as regards their monetary component, with the overall objective of combating inflationary pressures resulting from exchange depreciation and high levels of economic activity.

Following depreciation of 22.3% and 18.9% between May 10 and the peak of exchange rate tensions, the Turkish lira and the South African rand closed 2006 with depreciation of 5.5% and 9.7%, compared to average rates in effect in December 2006 and 2005. Estimates for the Turkish and South African current account deficits in 2006 indicate external imbalances equivalent to 8.5% and 6.1% of GDP, respectively, compared to 6.4% and 3.8%, in 2005.

However, among the currencies of countries that had high external deficits, it is important to mention the behavior of the Hungarian florin which, after depreciating 9.7% against the dollar between the start and the high point of international financial market turbulence, closed the year with 9.6% appreciation. This performance revealed both the position adopted by that country's government and the adjustments introduced into its fiscal accounts and monetary policy, including greater interaction with sources of private financing in the European Union, as a result of the process of economic integration.

Graph 6.17  
**Multilateral real effective exchange rate**  
 Dollar exchange rates



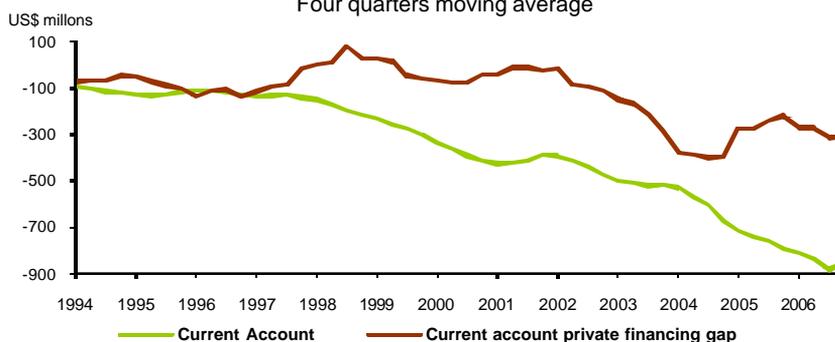
Source: Bloomberg

The effective multilateral real rate of exchange for the American dollar depreciated 4.7% in 2006, returning to the situation initiated in May 2002 and interrupted in 2005. For the most part, this was caused by differentiation in favor of the United States economy of the activity level and monetary policy cycle in the developed countries. Cumulative depreciation since May 2002 totaled 17% in December 2006.

The trend toward depreciation of the dollar coincided with growth from US\$65.1 billion to US\$856.6 billion in the country's current account deficit and with growth of US\$89 billion in the private financing gap in relation to the external deficit<sup>4</sup>.

<sup>4/</sup> It refers to the current transactions result minus the total net value of private capital flows and the balance of errors and omissions.

Graph 6.18  
**USA current account private financing gap**  
 Four quarters moving average



In keeping with the country's role as center of international financial intermediation, growth in the gap reflected expansion of US\$606.9 billion in private American investments in other countries. Flows of private foreign capital to the United States increased US\$451.6 billion<sup>5</sup> compared to the previous year.

Net direct investments by residents in the United States in other countries increased US\$239.8 billion in 2006, to some extent reflecting exhaustion of the effects of the Homeland Investment Act on repatriation of profits by American companies abroad.

Another relevant aspect of the evolution of financing of the American external deficit in 2006 was growth in net flows of government capital to that country from US\$101 billion to US\$300.5 billion, thus completing the economy's external borrowing requirements.

**Table 6.1– Emerging markets : balance of payments components**

US\$ billion	2003	2004	2005	2006
Current account balance	104.5	150.2	257.8	317.0
Private capital flows, net	228.8	348.9	509.2	501.7
Direct Investment, net <sup>1/</sup>	97.6	156.0	198.7	185.3
Portfolio investment, net	37.1	39.1	55.8	69.7
Commercial banks credits, net	26.9	60.9	141.8	143.3
Nonbanks credits, net	67.2	92.9	112.9	103.4
Foreign reserves change	267.9	398.2	439.8	536.0

Source: IIF

1/ includes domestic residents investments abroad.

5/ In order to calculate the gap between private financing and foreign debt, the adjustment between these two accounts is carried out through the errors and omissions account, which showed an increase in net inflows equivalent to US\$131 billion.

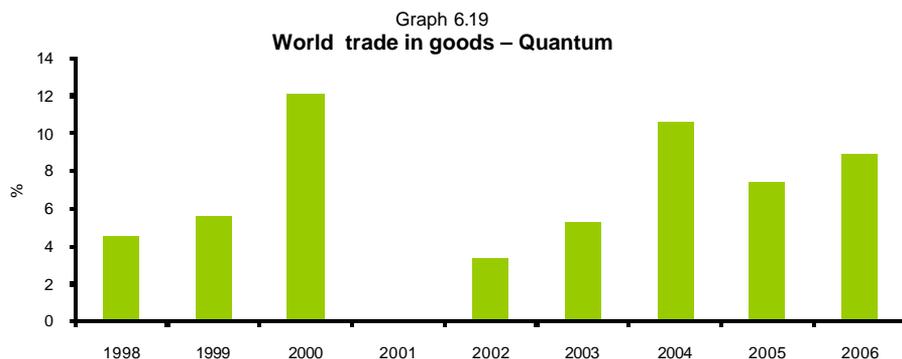
According to the Institute of International Finance (IIF), growth in the international reserves of the 30<sup>6</sup> major emerging economies reached US\$536 billion in 2006, compared to US\$439.8 billion in 2005. According to the same Institute, the increase from US\$59.2 billion to US\$317 billion in the consolidated current account balance of these economies was equivalent to 60.5% of growth in cumulative international reserves.

Also according to the IIF, growth in bank loans and portfolio investments was a determining factor in generating private capital flows totaling US\$502 billion in 2006 to the emerging economies, just 1.5% less than the 2005 record. Here, it is important to consider reductions of US\$13.4 billion and US\$9.5 billion, respectively, registered in net flows of direct investments and in net external security issuances.

Preliminary UNCTAD data for the developing countries show growth from US\$334.3 billion to US\$367.7 billion in global flows of foreign direct investments to these economies (excluding the value of investments made by nationals abroad from the net calculation of each country).

## World trade

Growth in international trade in 2006 was estimated by the IMF at 7.1%. This growth confirms the recent tendency toward expansion at higher rates than those of economic growth. Expanded trade flows have been increasingly impacted by the behavior of the emerging economies, which have increased the volumes of their exports and, above all, of their imports, at rates significantly higher than those of the developed countries. This dynamic was impacted by the trade



Source: IMF  
2005= Estimate.  
2006 = Forecast.

6/ These emerging economies are distributed amongst Asia (7 countries), Latin America (9 countries), Europe (9 countries), and Africa and the Middle East (5 countries).

performance of China, as that country's integration into the world economy has moved forward at a rapid pace.

During the course of 2006, floating oil prices generated significant impacts on the trade balances of the major economies. The price highs registered under various commodities, particularly metallic commodities, aided greatly in improving terms of trade in the benefit of emerging exporter countries, such as Chile, Brazil, Peru, Australia and South Africa.

Though it moved downward as of August, the United States trade deficit reflects the reduction in oil prices and, to a lesser extent, depreciation of the dollar and a relative slowdown in domestic demand, closing 2006 at US\$765.3 billion, corresponding to 5.8% of GDP. This result surpassed the 6.8 figure for 2005, reflecting 12.7% growth in exports and 10.5% in imports.

The Euro Area registered a trade deficit of €16.2 billion in 2006, against a surplus of €8.2 billion in the previous year, primarily as a consequence of the 22.4% annual increase in the oil account deficit, which totaled €245.6 billion. Among the countries of the region, the largest surplus occurred in Germany, with US\$161.9 billion, while the United Kingdom, France and Italy turned in trade deficits of US\$128 billion, US\$35.6 billion and US\$21.4 billion, respectively.

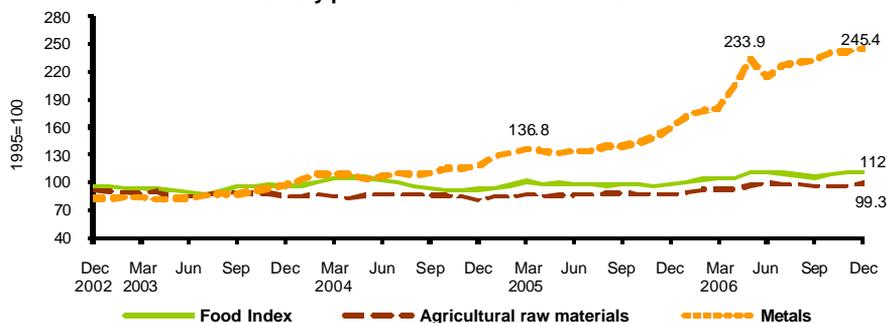
Powered by imports of automobiles and parts by the USA, as well as by Chinese demand, Japanese exports turned in a very good performance in 2006, mainly in the final four months of the year. Growth in exports reached 9.6%, while imports rose 12.8%, mainly as a result of the oil price high. It should be stressed that the reduction in energy costs and depreciation of the yen in the second half of the year aided in improving trade balance results.

In China, exports followed a solid growth trajectory and led the process of economic expansion, contributing significantly to larger trade balances. In 2006, external sales totaled US\$969.1 billion and made that country the world's second largest exporter, following only the USA. Intense utilization of imported inputs in the productive chain of export industries resulted in rapid growth under imports, despite strong investments aimed at substituting these purchases. Despite this evolution, the trade surplus set a new record of US\$177.8 billion in 2006, 74.3% more than in the previous year.

The major agricultural and metallic commodities turned in positive performances in 2006. Despite an upward trajectory, farm commodity prices closed at a level below those of the February-April 2004 period, while metallic commodities set a new record. Basically, this behavior was related to world economic performance, particularly the accelerated growth achieved by China and India.

Farm commodity prices rose 14.2% in 2006, posting positive growth in the prices of corn, wheat, coffee, soybeans and sugar, driven by rising demand and speculative purchases. J.P. Morgan Chase & Co. estimate that the 250 world commodity funds monitored by the bank received US\$53 billion in investments and that approximately half of these funds were invested in the so-called “beta funds”, which reproduce the performance of commodity indices.

Graph 6.20  
Commodity price index in terms of U.S. Dollars

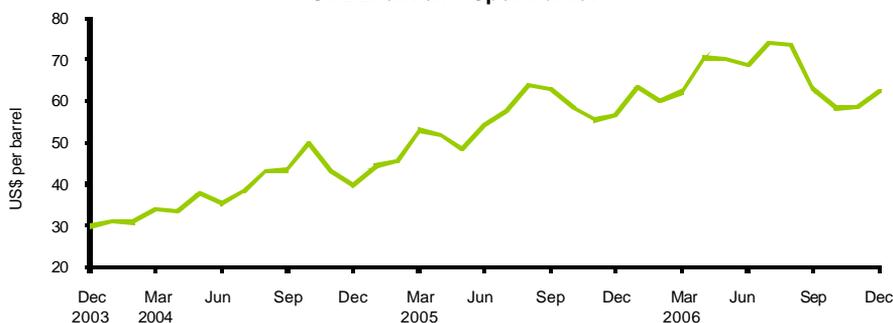


Source: IMF

With respect to the prices of the major components of the “feed complex” – wheat, corn and soybeans, only the first two closed above the historical average, since their stocks dropped to the lowest point in the last 20 years. Wheat prices rose 67% in 2006 closing October with the highest prices of the last 10 years, while, reflecting declining production in the United States and rising demand in that country for purposes of ethanol production, corn prices increased 83% and closed November at the highest level of the last 10 years. Expanding investments and demand for biofuels also contributed to the highest sugar prices in the last 25 years.

The prices of metallic commodities increased 68.9% in 2006, benefiting both from rising demand in the emerging economies, particularly China and India, and

Graph 6.21  
U.K. Brent oil – Spot market



Source: Bloomberg

by a relative supply shortage compared to strong demand in the steel sector. As regards nickel, for example, supply remained low during all of 2006, representing no more than one day of global consumption.

International oil markets registered sharp price fluctuations during all of 2006, when Brent-type oil began the year at US\$61. Following sharp volatility in the April-August period, when they closed at US\$70 for the first time on April 13, prices set a new record of US\$78.63 on August 7, before settling back to the levels in effect at the start of the year. In the final quarter of the year, despite cutbacks in the Russian oil supply, the policy of reducing production within the Organization of Oil Exporting Countries (OPEC) and geopolitical difficulties in the Middle East, a less rigorous winter in the United States contributed to reducing demand for oil for heating purposes, thus alleviating pressures on prices. In this context, the price of Brent-type petroleum closed 2006 at US\$60.13.

## International Financial Organizations

### International Monetary Fund

Founded in 1945, the IMF has 185 current member countries. Its main functions are to foster international monetary cooperation; pursue exchange stability; stimulate economic growth and high levels of employment; provide temporary financial assistance to countries involved in processes of balance of payments adjustment and facilitate balanced expansion of international trade. Furthermore, the organization monitors and analyzes the economies of member countries annually and is responsible for half-yearly publication of “World Economic Outlook” (WEO) and the “Global Financial Stability Report” (GFSR).

As part of its multilateral macroeconomic analysis and supervisory activities, the Fund estimated that 2007 world economic expansion would reach 4.9%, compared to 5.1% in the previous year. It is estimated that the volume of world trade in 2006 expanded 8.8% compared to 2005, due to some extent to higher oil prices in dollars, 29.7%, and increases in the prices of other international commodities, 22.1%.

Besides analyzing international economy and finance, the IMF also holds consultations as demanded by Article IV of its Articles of Agreement – concentrated on macroeconomic oversight of each member country, normally on an annual basis, at the same time in which it carries out what are normally quarterly Program Reviews when a specific country is involved in a Financial Assistance Program supervised by the Fund. The activities of the Fund represent an important source of information used by the Central Bank of Brazil in monitoring the international economy.

Aside from the reports mentioned above, the IMF works together with the World Bank in the production of Reports on the Observance of Codes and Standards (ROSCS), which are assessments of the degree to which countries have adopted internationally recognized codes and standards in 12 areas: data quality; monetary and financial policy transparency; fiscal transparency; bank supervision; capital market regulation; insurance market supervision; payments systems; combating

of money laundering and terrorism financing; corporate governance; accounting; auditing; and, finally, insolvency and creditor rights.

Another important activity also performed in tandem with the World Bank is the Financial Sector Assessment Program (FSAP), a volunteer effort performed at the request of member countries. Besides elaborating the ROSCS, FSAP applies stress testing in order to verify the degree of a member's financial stability in the face of economic shocks and produces a report with recommendations for the authorities of the country in question, accompanied by two summarized reports: the "Financial System Stability Assessment" (FSSA) and the "Financial Sector Assessment" (FSA), which are submitted to the IMF and World Bank Boards.

Regarding publication of economic data, by the end of 2006, 64 countries had subscribed to the Special Data Dissemination Standard (SDDS), including Brazil. The SDDS is designed to serve as a guide for releasing wide-ranging economic and financial data to the public in a timely and comprehensive manner, thereby contributing to elaboration of sound macroeconomic policies and financial market improvements.

The IMF agenda for 2006 called for implementation of its medium-term strategy, emphasizing modernization of supervisory activities. It was in this context that revision of the 1977 Decision on Exchange Rates Supervision was begun. At the same time, adoption of a remit for supervision understood as codification of the objectives, priorities and responsibilities of supervision was analyzed, with the objective of making it more effective. In 2006, 128 Article IV consultations were carried out, of which 122 were published.

One important innovation adopted by the IMF at its April Spring Meeting was creation of a multilateral consultation mechanism, designed to resolve problems in a manner consistent with sustained growth and shared responsibility. The theme chosen for the first consultation was "global imbalances", and the participants were the USA, Japan, China, Euro Area and Saudi Arabia.

The first stage of the quota and voice reform in the IMF was initiated in September 2006, with *ad hoc* increases granted to the four most under-represented countries: China, Korea, Mexico and Turkey. It was determined that the reform would be concluded by September 2008, resulting in adoption of a new simplified formula and realignment of quotas in such a way as to reflect the relative position of the respective countries in the world economy. The commitment adopted of at least doubling basic votes will help to correct the erosion of the voting power of the low income countries.

Parallel to this, a discussion was initiated on a new liquidity instrument that would meet the needs of the emerging economies going through periods of balance of payments difficulties. However, important questions related to the use of this instrument, such as pre-qualification criteria and loss of eligibility, denominated the exit problem, must still be resolved.

The theme of IMF financial sustainability was hotly debated over the course of 2006. The core question is pursuit of a new financial model capable of providing the Fund with sufficient revenues to satisfy its growing supply of services, since the rates applied to loans, the Fund's major source of revenues, have fallen sharply as a result of a reduced the volume of credit operations. In this framework, The Executive Board of the Fund created a committee of notables and gave it the task of evaluating additional and diversified sources of revenue for the Institution.

Overall IMF capital reached SDR224 billion, and total credits to be received came to SDR9.8 billion at the end of 2006. Brazil's quota in the Fund totaled SDR3,036 million, 1.39% of the institution's total capital.

The Annual Assembly of the IMF and World Bank Governors occurred in Singapore on September 16 and 17 2006. In the first half of the year, meetings of the International Monetary and Financial Committee (IMFC) and of the Development Committee were held on April 15 and 16 in Washington.

## Group of 20

The difficulties faced by the Bretton Woods institutions (IMF, World Bank and WTO) in assuming more active roles in the coordination of global economic growth have attributed greater importance to discussions of key questions on the global economy in the framework of Informal Forums.

These forums have made it possible for countries to openly discuss questions related to the architecture of the international financial system and, since they are informal, they make it possible for these countries to coordinate positions, actions and responses in a more agile and effective manner when dealing with key questions.

The Asian financial crisis of the 1990s revealed imbalances in the economies of the major emerging countries, demonstrating that they could contaminate the global economy. This led to the conviction of the need to incorporate those emerging countries considered to be systemically important into international financial discussions.

Consequently, the Group of 20 (G-20) was created in 1999, bringing together industrialized nations (the entire Group of 7 – G-7<sup>7</sup> plus Australia and representatives of the European Union) together with systemically important developing countries (South Africa, Saudi Arabia, Argentina, Brazil, China, South Korea, India, Indonesia, Mexico, Russia and Turkey), with the IMF and World Bank as observers. Taken together these member countries represent 90% of world GDP, 80% of global trade and 2/3 of the world's population.

Ministers of Finance and central bank governors participate in the G-20 with the objective of fostering dialogue on national policies and key questions related to global financial stability, together with measures that would make it possible to strengthen international financial architecture and enhance international cooperation. The Group also tries to arrive at a possible consensus prior to the IMF/World Bank meetings<sup>8</sup>.

The topics currently under discussion at the G-20 are precisely those highlighted in the international political and economic agenda of recent years or in other words reform of Bretton Woods Institutions: regional integration, demographics and unilateral transfers, fiscal space, financial system and energy and commodity markets.

The central question of these institutions is the need to adjust efficiently to the new international financial reality, improving governance frameworks and operational strategies. In the case of the IMF, particular mention should be made of discussions regarding the themes of quotas and voice (the power of each country in the organization, corresponding to its participation in capital); surveillance; creation of Reserve Augmentation Lines (RAL); capital controls; liberalization of the capital account; technical assistance; and general policies aimed at preventing and resolving financial crises. With regard to the World Bank, one should highlight discussions regarding the composition of its capital, collaboration with the IMF, relations with medium income countries and technical and financial assistance policies and priorities.

Since it is an informal organization, the G-20 operates at the level of ministerial meetings (central bank governors and finance ministers), preceded by two meetings of deputies (generally, those holding positions equivalent to the international directors of central banks and Ministry of Finance Secretaries of International

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7/ G-7 is a group composed of the G-3 (Germany, United States and Japan), Canada, France, England and Italy, aimed at discussing key issues of the global economy.

8/ Because of the informal character of these meetings (journalists do not participate and no recordings or registrations are made), the participants are in a better position to express their views in a more open and direct way.

Affairs), various seminars on specific themes and workgroups and discussions, coupled with maintenance of the group's website<sup>9</sup>.

Each year, a different host country is charged with organization of these events. The host country is informally designated the President of the G-20, chosen on a rotating basis among the different groups included in the G-20.

In order to avoid interruptions in the Group's work, it is managed by a troika, composed of the most recent host, the current host and the next one.

Brazil was elected in 2006 to be the host country of the 2008 G-20 meetings, thus including the country in the management tasks for the meetings to be held as of 2007, together with the representative of Australia, which held the presidency in 2006, and South Africa, President in 2007.

The presidency of the G-20 represents an opportunity for Brazil to participate more actively in discussions and decisions dealing with strategic themes, thus favoring perceptions in relation to the possibility of implementing efficient alterations in the frameworks of governance and operational strategies of the Bretton Woods Institutions.

## Bank for International Settlements

The Bank for International Settlements (BIS) is an international organization founded in 1930 with the principal function of fostering international financial and monetary cooperation, acting as a forum for coordinating processes among central banks and the financial community; as a monetary and financial research center; and as fiduciary agent in international operations carried out by central banks.

Since March 25, 1997, the Central Bank of Brazil has held 3000 subscribed shares in the institution worth SDR15 million, equivalent to 0.55% of its total capital.

Headquartered in Basel, Switzerland, the BIS coordinates committees and organizations charged with the task of fostering financial stability. Among these, one should cite the Basel Banking Supervision Committee, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System and the Market Committee. These Committees were founded in the course of the

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<sup>9/</sup> <http://www.g20.org/>.

last 40 years by central banks of the G-10 countries<sup>10</sup> and have considerable autonomy in structuring their agendas and activities.

The BIS also plays the role of Secretariat for the Financial Stability Forum (FSF), which was created in 1999 with the objective of the debating questions regarding strengthening of the international financial architecture and fostering cooperation among national authorities and international organizations and regulators.

At the end of the fiscal year on March 31, 2006, BIS assets hit a record level of SDR220.1 billion, an increase of 22% over the previous year's result. Net profits reached a level of SDR599 million, compared to SDR371 million in the preceding year. Foreign currency deposits, which represent the major share of BIS liabilities, totaled SDR186 billion, while gold deposits reached SDR9.2 billion, compared to SDR150.6 billion and SDR7.1 billion in the previous fiscal year.

In January 2001, the BIS decided to close its capital to private agents and proceeded to purchase the shares held by private parties, keeping them in treasury. In 2005, BIS decided to resell these shares to the central banks of member countries. It is important to observe that holding of these shares does not reflect increases in the participation of member institutions in the organization and is classified solely as a financial investment. The Central Bank of Brazil opted not to buy these shares given their low levels of liquidity and profitability.

Among the activities carried out regularly by BIS, mention should be made of the Global Financial System Committee and the debates held in the framework of the Committee on Payments and Settlement Systems, which operates in a partnership with the International Organization of Securities Commissions (IOSCO), with the aim of fostering security in payments systems, strengthening market infrastructure and reducing systemic risk.

In its turn, the Basel Banking Supervision Committee continued its efforts to strengthen prudential supervision of banking institutions, adopt more transparent practices in financial records, and provide encouragement so that the banking system will move forward in the area of risk evaluation.

Finally, with respect to its role as the Bank of central banks, BIS offers a variety of banking services, designed specifically to aid in management of reserve positions. Approximately 140 institutions, including several central banks, have made use of this service. On average, approximately 6% of overall international reserves have been invested in BIS by central banks in recent years.

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<sup>10</sup>/ Group of industrialized countries composed of Germany, Belgium, Canada, United States, France, Holland, England, Italy, Japan, Sweden and Switzerland.

## Latin American Center of Monetary Studies

The Latin American Center of Monetary Studies (Cemla) was created in 1952 as a civil association located in Mexico City. Among its responsibilities, the most important involve questions related to monetary and financial stability and operation of the international financial system. In 2006, new Cemla bylaws were approved, emphasizing enhanced efficiency in questions related to governance.

More specifically, Cemla has the objective of fostering better understanding of monetary and banking affairs in Latin America and the Caribbean, together with questions of pertinence to the fiscal and exchange policies of the member countries; assistance in the training of employees of central banks and other financial entities in Latin America and the Caribbean; research and systematization of results in the fields mentioned above; and dissemination of information to members on facts of international and regional interest in the framework of monetary and financial policies.

Cemla is currently composed of 50 institutions, including 30 central banks with voting power and active voice in deliberations. The other institutions are distributed among collaborating members and assistant members, both of which have active voice but no voting power.

Cemla is governed by two entities: the Assembly of Governors and the Board of Governors. The Assembly of Governors is the highest level of authority within the institution and is composed of the central bank governors of all of the associate member countries, with active voice and voting power in deliberations. Voting power is determined according to the annual contribution quotas of each member.

The Board of Governors is composed of the Governors of seven associate central banks, with that of Mexico as a permanent participant due to its position as headquarters of the organization, together with two extra-regional banks as collaborating institutions. The Board is subordinated to the Assembly and its members are elected to two-year terms as representatives of the associate members who elected them and in proportion to their voting power. Argentina holds the presidency of the Board of Governors in the 2005-2007 period.

The Committee of Alternates and the Auditing Committee provide support to the Board of Governors, so that the latter will be in a position to perform its responsibilities more effectively and provide assistance in monitoring daily Cemla activities.

The major share of the Cemla budget, approximately US\$2.576 million in 2006, originates in annual contributions made by associate members, as well as by collaborating members and assistants. Brazil's annual contribution has remained unaltered in recent years, in an amount of approximately US\$283,000.

In the course of 2006, Cemla organized 57 events, including courses, seminars and workshops on themes of interest to central banks. Among the courses and seminars offered, mention should be made of 11 events on macroeconomic stability and the financial system; seven dealing with payments systems, credit information and remittances; eight dealing with statistics; one discussing savings and credit unions; seven discussing debt management and capital flows; and nine dealing with operational areas of central banks.

## Main Economic Policy Measures

### Constitutional Amendment

**53, dated 12.19.2006** – Created the Basic Education Maintenance and Development Fund for Maintaining and Developing Basic Education and Enhancing the Value of Education Professionals (Fundeb), to remain in operation from 2007 to 2020, replacing the Fund for Maintaining Primary Education and Enhancing the Value of the Teaching Profession (Fundef), authorized by Constitutional Amendment no. 14, dated 9.12.1996, to be implemented in the period extending from 1997 to 2006.

With this new Fund, the number of public school students to benefit will increase from 30 million to 48.1 million, considering that Fundef covered only students of the primary education level. Inclusion of preschool and secondary level students will be gradual (1/3 of the total each year) and will only encompass all of the students by the third year of implementation or, in other words, in 2009. With respect to the source of financing, the revenue sources that supported Fundef were maintained – State and Municipal Revenue Sharing Funds, Tax on the Circulation of Merchandise and Services (ICMS) and Industrialized Products Tax (IPI) – Exports – while also including resources drawn from the Tax on Automotive Vehicle Proprietorship (IPVA), the Inheritance Tax and the Rural Land Tax. It is estimated that R\$43.1 billion will be utilized during the first year of Fundeb implementation, including R\$2 billion in federal government participation. As of the fourth year, the volume of resources should stabilize at R\$55.8 billion (updated in monetary terms every year), including 10% in federal government resources.

### Complementary Laws

**122, dated 12.12.2006** – Postponed operation of the provision in Complementary Law no. 87, dated 9.13.1996, until January 1, 2011. This provision allowed

companies to deduct the Tax on the Circulation of Merchandise and Services (ICMS) built into the prices of merchandise acquired for their own use and consumption from overall taxes to be paid, including such items as office material, cleaning material and electricity and telephone bills. Currently, only acquisitions of raw materials and inputs or, in other words, goods included directly in the productive process, generate ICMS tax credits. In the case of electricity, only that consumed in the industrialization process can be considered.

**123, dated 12.14.2006** – Instituted the Integrated System of Tax and Contribution Payments for Micro and Small Businesses (*Simples Nacional*) in the framework of the National Micro and Small Business Statute. The *Simples Nacional* is a differentiated system of taxation that unified six federal taxes (IRPJ, CSLL, IPI, Cofins, PIS/Pasep and the employer contribution to the INSS) with the Tax on the Circulation of Merchandise and Services (ICMS), classified as a state tax, and the Tax on Services (ISS), a municipal tax. For purposes of inclusion within this new taxation system, microbusinesses are classified as those that have annual gross revenues equal to or less than R\$240,000. In their turn, small-scale companies are those that have annual revenues of more than R\$240,000 and up to R\$2.4 million. The law also approved mechanisms designed to facilitate access to credit, reduce bureaucracy in opening and closing companies and create positive conditions for these companies to participate in public tenders.

## Laws

**11,281, dated 2.20.2006** – Altered provisions of Law no. 6,704, dated 10.26.1979, which deals with export credit insurance. Authorized judicial and extrajudicial charging of federal government credits abroad generated by subrogations of export credit insurance guarantees honored with Export Guarantee Fund (FGE) resources and of unpaid financing contracted with funds withdrawn from the Export Financing Program (Proex) and the now extinguished Export Financing Fund (Finex); altered Decree Law no. 37, dated 11.18.1966; repealed Law no. 10,659, dated 4.22.2003; and took other measures. It refers to conversion into law of Provisional Measure no. 267, dated 11.28.2005.

**11,289, dated 3.30.2006** – Authorized the federal government to provide supplementary financial assistance to the states, Federal District and municipalities, with the objective of stimulating the nation's exports. It refers to conversion into law of Provisional Measure no. 271, dated 12.26.2005.

**11,306, dated 5.16.2006** – Approved the 2006 General Federal Government Budget. Revenues were estimated at R\$1,702,918 million, of which R\$1,660,772

million referred to the National Treasury Budget and R\$42,146 million to the State Company Investment Budget. With regard to National Treasury revenues, distribution was as follows:

- I – Fiscal Budget: R\$542,006 million;
- II – Social Security Budget: R\$281,225 million; and
- III – Federal Public Debt Refinancing: R\$837,541 million.

**11,307, dated 5.19.2006** (conversion of Provisional Measure no. 275, dated 12.29.2005) – Altered Law no. 9,317, dated 12.5.1996, which instituted the Integrated System of Tax and Contribution Payments for Micro and Small Businesses (Simples), as a result of the alterations introduced by Law no. 11,196, dated 11.21.2005.

**11,311, dated 6.13.2006**, (conversion of Provisional Measure no. 280, dated 2.15.2006) – Adjusted the Individual Income Tax table by 8%, effective as of 2.1.2006. With this alteration, the progressive monthly table will have the following earnings brackets:

- I – earnings up to R\$1,257.12 are exempt from taxation;
- II – earnings from R\$1,257.13 up to R\$2,512.08 are taxed at 15% with a deduction of R\$188.57;
- III – earnings above R\$2,512.08 are taxed at 27.5% with a deduction of R\$502.58.

**11,312, dated 6.27.2006** (conversion of Provisional Measure no. 281, dated 2.15.2006) – Reduced the rates of the Provisional Contribution on Financial Operations (CPMF) to zero on nonresident investments in federal public securities and venture capital investments.

**11,321, dated 7.7.2006** (conversion of Provisional Measure no. 288, dated 3.30.2006) – Increased the value of the minimum wage from R\$300.00 to R\$350.00, effective as of April 1, 2006. Considering the 2.78% growth in the National Consumer Price Index (INPC) in the period extending from 5.1.2005 to 3.31.2006, the increase reflected a real gain of 13.52%.

**11,322, dated 7.13.2006** (conversion of Provisional Measure no. 285, dated 3.6.2006) – Authorized recontracting of debts originating in rural credit operations and involving undertakings located in the area of activity of the Northeast Development Agency (Adene), contracted by family farmers, mini, small and medium producers, their cooperatives or associations, up to January 15, 2001, with originally contracted values of up to R\$35,000.00 (thirty five thousand reais), in one or more operations by the same borrower and subject to the conditions defined in this provisional measure.

**11,324, dated 7.19.2006** (conversion of Provisional Measure no. 284, dated 3.6.2006) – Allowed for deduction of social security contributions paid by domestic employers in the name of domestic help from the employer's Annual Individual Income Tax returns. This deduction, which will be permitted through the 2012 fiscal year (base year 2011), is restricted to the employer contribution calculated on the basis of one minimum monthly wage, the Christmas bonus and additional vacation earnings, also limited to one minimum wage. The deduction is restricted to one employee per declaration, even in the case of joint declarations.

**11,326, dated 7.24.2006** – Defined the concepts, principles and instruments to be applied to formulation of public policies targeted at Family Agriculture and Rural Family Undertakings.

**11,371, dated 11.28.2006** (conversion of MP-315, dated 8.3.2006) – Deals with exchange operations, foreign capital registration, payment of free shops located in primary zones of ports or airports, taxation of aircraft leasing operations, novation of contracts formalized according to the terms of paragraph 1 of article 26 of Law no. 9,491, dated 9.9.1997.

**11,429, dated 12.26.2006** – Determined that money judicial sums referring to state governments and the Federal District taxes, including those registered as active debt, must be deposited in a institution belonging to the Federal or state government through an instrument that allows to identify its nature.

**11,438, dated 12.29.2006** – Determined that individual persons and those corporate entities that are taxed on the basis of real profits may, up to and including calendar year 2015, deduct the costs of sponsorships or donations, in providing direct support to sporting and parasporting projects previously approved by the Ministry of Sports, from income tax due on their annual or quarterly tax returns. Deductions are limited to 6% of the tax due, in the case of individual persons, and 4% in that of corporate entities.

**11,439, dated 12.29.2006** – Approved the guidelines for elaboration of 2007 legislation. Here, the following decisions deserve emphasis:

- a) budget elaboration will be compatible with a consolidated public sector primary surplus target equivalent to 4.25% of GDP, with 2.45% for the fiscal and social security budgets and 0.70% for the overall spending program of state-owned companies;
- b) spending set aside in the 2007 fiscal year for purposes of publicity, per diems, airline tickets and transportation costs in the framework of each branch of government may not exceed 90% of the amounts set aside in 2006;
- c) the excess found to exist in relation to the primary surplus target for the overall fiscal and social security and federal state-owned company budgets

- (3.15% of GDP) may be utilized to meet the programming needs of the Public Investment Pilot Project (PPI) in the 2007 fiscal year, provided that the primary surplus target equivalent to 4.25% of GDP for the consolidated public sector be obtained in the 2006 fiscal year;
- d) the consolidated surplus for 2007 may be reduced by as much as R\$4.59 billion to meet the programming needs of the Public Investment Pilot Project (PPI).

## Provisional Measures

**280, dated 2.15.2006** – Introduced an adjustment of 8% in the personal income tax table, effective as of 2.1.2006. With this alteration, the progressive monthly table now has the following income brackets;

- I – earnings up to R\$1,257.12 are exempt;
- II – earnings between R\$1,257.13 and R\$2,512.08; rate of 15%, with deduction of R\$188.57;
- III – earnings of more than R\$2,512.08; rate of 27.5% and deduction of R\$502.58%.

One should stress that the simplified deduction limit, which substitutes all deductions permitted by income tax legislation on annual tax returns, moved from R\$10,340.00 to R\$11,167.20. The individual limit on deductions of education outlays for the taxpayer and his/her dependents was raised from R\$2,198.00 to R\$2,373.84, while the limit of outlays for each dependent moved from R\$1,404.00 to R\$1,516.32.

**281, dated 2.15.2006** – Reduced the income tax rate on investor earnings to zero, applicable exclusively to new acquisitions of securities by nonresident investors. Such operations must be carried out according to rules set down by the National Monetary Council (CMN). Repo operations are not entitled to this benefit. Consequently, investments already existent on the date of publication of this Provisional Measure will continue subject to taxation according to current legislation. However, foreign investors are entitled to migrate to the new tax system by 8.31.2006, anticipating payment of the tax according to the terms of the previous system. In order to stimulate development of the venture capital segment, the income tax rate on the earnings of nonresident investors in Emerging Company Investment Funds (FIEE), Participation Investment Funds (FIP) and Funds for Investment in Participation Investment Fund Quotas (FCFIP) was reduced to zero, provided certain conditions be met. Aside from this, the CPMF rate was cut to zero on debits against deposit accounts for purposes of settlement of public stock offers on the over-the-counter market. Current legislation already specified that the CPMF would not be levied on stock market transactions.

**284, dated 3.6.2006** – Permitted deduction from annual individual income tax returns of social security contributions paid by employers for coverage of domestic employees. The deduction, which will be permitted through the 2012 fiscal year (base year 2011), is restricted to contributions on wages equivalent to up to one minimum monthly wage and applies exclusively to domestic employees.

**285, dated 3.6.2006** – Deals with renegotiation of debts originating in rural credit operations contracted through the use of resources drawn from the Northeast Constitutional Financing Fund (FNE), in the area covered by the Northeast Development Agency (Adene), in originally contracted values of up to R\$50,000 that have not been renegotiated on the basis of Law no. 10,177, dated 1.12.2001. The measure grants discounts to installments paid up to the date of respective maturity. This measure will generate a nominal impact of approximately R\$2.89 billion on public sector inflows during the renegotiation period, at the same time in which it will provide borrowers with a benefit equivalent to a bonus of approximately 68.8% of the overall debt balance.

**288, dated 3.30.2006** – Set the new minimum monthly wage at R\$350.00 (three hundred and fifty reais), effective as of April 1, 2006. The calculation was based on application of inflation measured by the National Consumer Price Index (INPC) in the period extending from May 1, 2005 to March 31, 2006, plus a real increase on the value of R\$300,00 (three hundred reais).

**291, dated 4.13.2004** – Increased Social Security benefits 5% (five percent), effective as of 4.1.2006.

**294, dated 5.8.2006** – Created the National Labor Relations Council (CNRT), a collegiate organ of a consultative and deliberative nature, with equal representation of the three parties involved, subordinated to the Ministry of Labor and Employment, with the following objectives:

- a) fostering understanding among workers, employers and the federal government, seeking common solutions to themes related to labor relations and union organization;
- b) fostering democratization of labor relations, three party representation and the primacy of social justice in the context of labor legislation and union guarantees; and
- c) foster collective bargaining and social dialogue.

**303, dated 6.29.2006** – Deals with installment payment of corporate debts with the Federal Revenue Secretariat, General Prosecutor of the National Treasury and National Social Security Institute.

Provisional Measure no. 303 determined that debts maturing up to February 28, 2003 can be paid in up to 130 monthly and consecutive installments, with indexing according to the Long-Term Interest Rate (TJLP).

Installment payment of the debts should be requested by September 15, 2006 and the minimum value of each installment may not be less than:

- I – R\$200.00 for companies that have opted for the Simples; and
- II – R\$2,000.00 for all other companies.

This modality of installment payments does not apply to debts:

- a) related to taxes and contributions withdrawn or deducted from third parties and not deposited with the National Treasury or INSS;
- b) involving amounts received by collection agents that have not been deposited with the Treasury; and
- c) related to the Tax on Rural Property (ITR).

**315, dated 8.3.2006** – Deals with the following exchange-related measures:

- a) introduced enhanced flexibility into the requirement of exchange coverage in Brazilian export operations. The foreign currency resources received as a result of Brazilian exports of merchandise and services carried out by individuals or corporate entities may be maintained at financial institutions abroad, duly complying with the limit defined by the National Monetary Council (30%). Differentiated treatment by sectoral economic activity is prohibited. Funding maintained abroad may only be utilized for making investments, financial investments or payments of the exporter's own liabilities. Loans of any type whatsoever are forbidden;
- b) individuals or corporate entities resident or domiciled in the country that have foreign currency resources abroad related to reception of export payments should declare utilization of such amounts to the Secretariat of Federal Revenue;
- c) the Provisional Contribution on Financial Operations (CPMF) will not be levied on the amount maintained abroad within the 30% limit;
- d) the National Monetary Council may establish simplified systems for contracting simultaneous foreign currency purchase and sale operations, involving resources originating in exports;
- e) transferred control of exchange operations resulting from exports from the Central Bank of Brazil to the Federal Revenue Secretariat. The Central Bank of Brazil will assume responsibility for the records of exchange operations and for informing the Federal Revenue Secretariat regarding the data included in these records in a manner to be jointly determined;
- f) permitted utilization of the exchange contract form as defined by the Central Bank of Brazil in foreign currency purchase and sale operations up to a value of US\$3,000.00 or its equivalent in other currencies;

- g) foreign capital invested in companies established in the country and not yet registered nor subject to any other type of registration at Bacen must be registered in national currency at the Central Bank of Brazil, provided that the corresponding amounts be included in the accounting records of the Brazilian company receiving the foreign capital. The foreign capital amounts in national currency existent on 12.31.2005 should be normalized by 6.30.2007.
- h) payments in real in purchases in free shops located in Brazilian ports and airports were permitted, providing that the purchase limits defined by legislation be observed;
- i) the fine levied on Brazilian import operations by reason of arrears or the fact that their respective exchange operation has not been contracted was eliminated.

Other measures not related to exchange were also included in Provisional Measure no. 315, including:

- a) dispenses the Central Bank of Brazil from registering debts originating in administrative fines under its jurisdiction in the debt subject to execution, when those debts are deemed small or when it is demonstrated that charging is impossible;
- b) in relation to generating facts occurring up to 12.31.2013, reduces the income withholding tax to zero on leasing operations with purchase options (financial leasing) involving aircraft, in operations carried out by 12.31.2008;
- c) authorizes the National Bank of Economic and Social Development (BNDES) to convert 80% of a US\$7 billion debt with the National Treasury (paragraph 1, article 26 of Law no. 9,491/1997) into base capital. With this, the capital of the institution, now limited to R\$24 billion, will be increased to approximately R\$30 billion, making it possible for the bank to expand its credit supply to the business sector. Legislation determines that BNDES loans to the public sector be limited to 45% of the institution's base capital and 25% in operations with the private sector;
- d) revokes item IV of article 7 of Provisional Measure no. 303/2006, making it possible for companies with debts to the FGTS to participate in Refis 3, the program that permits installment payments of debts to the federal government.

**316, dated 8.11.2006** – Increased the benefits maintained by the Social Security system by 5.01%, effective as of 4.1.2006.

**320, dated 8.25.2006** – Created the Logistical and Industrial Customs Center (Clia), which will replace the current publicly used customs facilities known as Dry Ports. The major advantage of this measure is to streamline the structuring of the Clias, which will be permitted in areas where the Federal Revenue Secretariat already has units, with no restrictions as to localities and quantities. At the same time, several entities may be installed within the same area, thus facilitating the participation of small-scale companies.

**321, dated 9.12.2006** – Permitted formalization of financing contracts as of 9.13.2006 by institutions included in the Housing and Basic Sanitation Financial System, based on funding drawn from savings account deposits, with or without the clause calling for updating according to the basic earnings system applicable to their respective deposits or, more specifically, the Reference Rate (TR).

**328, dated 11.1.2006** – Based on the terms of Complementary Law no. 87/1996 (Kandir Law), raised the volume of resources targeted to the states and municipalities by R\$1.95 billion with the objective of stimulating the country's exports. A breakdown of this volume shows that R\$975 million will be delivered in November, leaving installments of R\$487.5 million to be delivered in the months of December/2006 and January/2007.

**339, dated 12.28.2006** – Regulated provisions of Constitutional Amendment no. 53, dated 12.19.2006, which instituted the Fund for Maintaining and Developing Basic Education and Enhancing the Value of Education Professionals (Fundeb) in the framework of each state and the Federal District.

**340, dated 12.29.2006** – Adopted the following measures related to the Accelerated Growth Program (PAC):

- a) adjusted the Individual Income Tax table 4.5% to be adopted for generating facts that occurred as of 1.1.2007, together with the value of deductions for dependents and education. At the same time, announced the tables that will be adopted in the 2008, 2009 and 2010 fiscal years, each of which will be adjusted 4.5% over the table for the previous fiscal year;
- b) extended to 2008 the period allowed for utilization of the credit related to the Social Contribution on Net Profits (CSLL), at the rate of 25% of accounting depreciation of new machines and equipment incorporated into fixed assets and used in the industrial process of the acquiring party;
- c) reduced the CPMF rate to zero on credit operations targeted to anticipated settlement of debts and simultaneous opening of new credit lines, in different financial institutions and in operations involving the so-called wage-account, created exclusively for receiving salaries, wages, earnings, retirement pay, pensions and the like;
- d) introduced alterations into Law no. 6,194/1974, which deals with Obligatory Insurance for Personal Damages Caused by Automotive Vehicles (DPVAT), in such a way as to create a relationship between the value of the indemnity to be paid and the value of coverage in effect at the time of the occurrence;
- e) extended to 12.31.2007 the period for the National Transportation Infrastructure Department (DNIT) to utilize federal resources in the recovery of highways transferred to state jurisdiction;

- f) instituted installment payments of debt related to the Inspection Fee charged by the Securities and Exchange Commission (CVM), granting a reduction of 30% in the value of fines and legally callable interest; and
- g) extended non-levying of the Additional Merchant Marine Freight Fee from 1.8.2007 to 1.8.2012 on merchandise for which the point of origin or final destination is a port located in the north or northeast region of the country, for coastal, internal river and lake transportation.

## Decrees

**5,663, dated 1.9.2006** – Deals with implementation of the Thirty Second Additional Protocol to Economic Complementarity Agreement no. 14 between Brazil and Argentina, dated 12.29.2005. The conditions applied in 2005 regarding the Automotive Regime between the two countries, as specified in Additional Protocol no. 31, were extended for an additional 60 days, effective as of 1.1.2006.

**5,664, dated 1.10.2006** – Delegated authority to the State Minister of Development, Industry and Foreign Trade to authorize operation of foreign corporations in Brazil, as well as alterations in corporate bylaws, contracts, nationalization and cancellations of authorization, as determined in articles 1,134, 1,139 and 1,141 of Law no. 10,406, dated 1.10.2002 – Civil Code and in articles 59 to 73 of Decree Law no. 2,627, dated 9.26.1940.

**5,685, dated 1.25.2006** – Instituted the Committee on the Regulation and Inspection of Financial, Capital, Insurance, Pension Fund and Capitalization Markets (Coremec) in the framework of the Ministry of Finance, with the objective of fostering coordination and improvement in the operations of entities subject to federal public administration entities charged with regulation and inspection of activities related to public programs aimed at contracting private savings.

The Committee, which is consultative in nature, will be presided over by the Governor of the Central Bank of Brazil and by one director of that institution, by the President of the Securities and Exchange Commission and by a director of that organization, by the Secretary of Complementary Pension Funds, of the Ministry of Social Security, and by a director of that institution, and by the Superintendent of the Private Insurance Authority and by a director of that institution.

Based on reports submitted by its members for discussion purposes, Coremec has the following responsibilities:

- a) propose adoption of measures of any nature aimed at improving the operations of markets subject to the regulations and inspection of the entities and organs cited above;
- b) debate initiatives involving regulations and inspection procedures that may have an impact on the activities of more than one of the entities and organs cited, with the objective of harmonizing the stated initiatives and procedures;
- c) facilitate and coordinate information exchanges among the cited entities, including foreign entities and international organizations;
- d) debate and propose coordinated measures in the areas of regulation and inspection, including those applicable to financial conglomerates; and
- e) approve their internal bylaws.

**5,691, dated 2.3.2006** – Suspended the PIS/Pasep-imports and Cofins-imports Contribution for new goods to be incorporated into the fixed assets of importer companies established in the Manaus Free Zone.

**5,697, dated 2.7.2006** – Reduced the Industrialized Products Tax (IPI) on diverse products used in the building industry. Such products as faucets and valves used in bathrooms and kitchens were granted a rate reduction from 12% to 5%. Paints, varnishes, mortar, sinks and bathroom sinks in plastic or stainless steel, toilets, ceramic tile, glass and copper wire were granted rate reductions from 10% to 5%. Finally, products such as plastic pipes and connections, water tanks, doors, windows, door frames, sales, steel for reinforced concrete, material for scaffolds, steel plates, bars and other materials were given a rate decrease from 5% to zero.

**5,698, dated 2.8.2006** – Deals with budget and financial operations of executive branch entities, funds and organs until publication of the 2006 budget law.

For purposes of compliance with budget guidelines, the following four-month targets were defined for the federal government primary surplus in the current fiscal year:

- I – R\$28.7 billion in the first four months;
- II – R\$55.2 billion up to the second four-month period; and
- III – R\$70.5 billion up to the third four-month period.

**5,705, dated 2.16.2006** – Promulgated the Cartagena Protocol on Biosafety of the Convention on Biological Diversity.

**5,710, dated 2.24.2006** – Issued regulations on Industrialized Products Tax (IPI) reductions for automotive vehicle assembly plants and manufacturers of auto parts located in the northeast region.

**5,712, dated 3.2.2006** – Regulated the Special Taxation System for the Information Technology Services Export Platform (Repes), instituted by articles 1 to 11 of Law no. 11,196, dated 11.21.2005.

**5,713, dated 3.2.2006** – Deals with the goods and services supported by the Special Taxation System for the Information Technology Services Export Platform (Repes), according to the terms of articles 4, § 4, and five, § 3 of Law no. 11,196, dated 11.21.2005.

**5,716, dated 3.9.2006** – Deals with implementation of the 33rd Additional Protocol to the Economic Complementation Agreement no. 14 (Automotive Agreement) between Brazil and Argentina, dated 3.1.2006. Since the Parties agreed not to implement free trade as of 1.1.2006, the conditions established in the 31st Additional Protocol, corresponding to 2005, will be maintained in the period from 3.2.2006 to 6.30.2006.

**5,730, dated 3.20.2006** – Determined the procedures to be adopted by financial institutions and other institutions authorized to operate by the Central Bank in determining the calculation base of the Contribution to PIS/Pasep, the Contribution to Social Security Financing (Cofins), the Corporate Income Tax (IRPJ) and the Social Contribution on Corporate Net Profits (CSLL), in futures market operations.

**5,738, dated 3.30.2006** – Deals with implementation of Decision no. 37/2005 of the Mercosul Common Market Council, which approved temporary regulation of CMC Decision no. 54/2004 “Elimination of Dual Charging and Distribution of Customs Revenue”, adopted on 12.8.2005 in Montevideo.

**5,749, dated 4.12.2006** – Determined that the Family Support Program will provide for the needs of families in situations of poverty and extreme poverty, defined as having monthly per capita income of up to R\$120.00 (one hundred and twenty reais) and R\$60.00 (sixty reais), respectively. Previously, these amounts had been set at R\$50.00 and R\$100.00.

**5,756, dated 4.13.2006** – Determined that, as of 4.1.2006, the maximum limit of the contribution wage and benefit wage will be R\$2,801.56 (two thousand eight hundred and one reais and fifty six centavos); determined that payment of the 13th monthly wage to social security beneficiaries would be made in two installments in 2006, the first of which would be equivalent to up to 50% of the value of the benefit corresponding to the month of August, paid in September.

**5,780, dated 5.19.2006** – Deals with budget and financial programming and defines a monthly executive branch disbursement schedule for the 2006 fiscal

year. Compared to the outlays authorized by the National Congress, the constant amounts stated in the disbursement schedule were reduced R\$14.2 billion. The imposition of conditioning factors is a measure of an administrative nature adopted in each fiscal year. To the extent that inflow estimates are confirmed, the resources held back can be released on a gradual basis.

**5,788, dated 5.25.2006** – Deals with the goods acquired or imported by Brazilian shipyards under the terms of the Special Capital Goods Acquisition System for Exporting Companies (RECAP), based on the terms of item II of paragraph 3 of article 13 of Law no. 11,196, dated 11.21.2005.

**5,789, dated 5.25.2006** – Deals with goods supported by the Special Capital Goods Acquisition System for Exporting Companies (Recap), according to the terms of article 16 of Law no. 11,196, dated 11.21.2005.

**5,796, dated 6.6.2006** – Regulated Law no. 11,124, dated 6.16.2005, which deals with the National System of Housing of Social Interest (SNHIS), creates the National Fund for Housing of Social Interest (FNHIS) and instituted the FNHIS Management Council.

**5,798, dated 6.7.2006** – Regulated fiscal incentives granted to activities involving technological research and development of technological innovation, as dealt with in articles 17 to 26 of Law no. 11,196/2005, and revokes Decree no. 4,928/2003.

**5,816, dated 6.26.2006** – Promulgated the Brazil-India Memorandum of Understanding on Technological Cooperation in the Area of Ethanol-Fuel Mixture For Transportation, formalized in New Delhi on 4.8.2002.

**5,821, dated 6.29.2006** – Reduced the rates of the Contribution to Pis/Pasep and Cofins, the Contribution to Pis/Pasep – Imports and Cofins-Imports to zero on the products mentioned therein (chemical pharmaceutical products), according to the provisions of § 3 of article 2 of Law no. 10,637, dated 12.30.2002, § 3 of article 2 of Law no. 10,833, dated 12.29.2003, and § 11 of article 8 of Law no. 10,865, dated 4.30.2004.

**5,835, dated 7.7.2006** – Deals with execution of the Thirty Fifth Additional Protocol to Economic Complementation Agreement no. 14, between Brazil and Argentina, dated 6.28.2006. With duration of two years, the agreement defines an index for each country and maintains a limit in the amount of 1.95, which will be allowed to fluctuate up to 2.1.

**5,861, dated 7.28.2006** – Expanded the limits on the operation and funding reserves of discretionary Central Government spending, compared to the amounts defined in Decree no. 5,780, dated 5.19.2006.

**5,872, dated 8.11.2006** – Determined that, effective as of 8.1.2006, the maximum limit of the contribution wage and benefit wage is R\$2,801.82 (two thousand, eight hundred and one real and eighty two centavos); determined that the 13th annual wage is to be paid to Social Security beneficiaries in two installments, the first of which will be equivalent to up to 50% of the value of the benefit corresponding to the month of August and will be paid in the month of September.

**5,881, dated 8.31.2006** – Regulated article 55 of Law no. 11,196, dated 11.21.2005, which instituted the system of suspension of Cofins and PIS/Pasep in acquisitions of machines and equipment for the production of paper to be utilized in the printing of newspapers and periodicals.

**5,891, dated 9.12.2006** – Deals with adoption of measures aimed at substitution of genetically modified glyphosate-tolerant soybeans with seeds produced according to the terms of Law no. 10,711, dated 8.5.2003, reserved for the use of rural producers in the State of Rio Grande do Sul, and takes other measures.

**5,906, dated 9.27.2006** – Regulated article 4 of Law no. 11,077, dated 12.30.2004, articles 4, 9, 11 and 16-A of Law no. 8,248 dated 10.23.1991, and articles 8 and 11 of Law no. 10,176, dated 1.11.2001, which deal with training and competitiveness in the information technologies sector.

**5,908, dated 9.27.2006** – Introduced a new text into the Appendix of Decree no. 5,789, dated 5.25.2006, which lists the capital goods backed by the Special Capital Goods Acquisition System for Exporting Companies (Recap), according to the terms of article 16 of Law no. 11,196, dated 11.21.2005.

**5,969, dated 11.21.2006** – Promulgated Decision no. 18/2005, taken by the Mercosul Common Market Council, dealing with integration and operation of the Fund for Structural Convergence and Institutional Strengthening of Mercosul (Focem), adopted in Asunción, on 6.19.2005.

**5,985, dated 12.13.2006** – Promulgated Mercosul Common Market Council Decision no. 24/2005 which approved the Regulations of the Fund for Structural Convergence and Institutional Strengthening of Mercosul (Focem), adopted in Montevideo on 12.8.2005.

**5,987, dated 12.19.2006** – Determined that corporate entities that acquire liquid fuels on the internal market or import such products may offset the value of the

Contribution on Intervention in the Economic Domain (Cide – fuels) paid by the corporate seller entity, in the case of internal market acquisitions, or paid directly, in the case of imports, with taxes and contributions administered by the Federal Revenue Secretariat.

**6,003, dated 12.28.2006** – Determined that the education wage social contribution will observe the same periods, conditions, sanctions and privileges as social contributions and other amounts due to the Social Security system. Insofar as appropriate, the legal provisions and other normative acts related to social security contributions are to be applied to it, acknowledging the jurisdiction of the National Education Development Fund (FNDE) over this matter.

**6,006, dated 12.28.2006** – Approved the Industrialized Products Tax Table (TIPI).

## National Monetary Council Resolutions

**3,339, dated 1.26.2006** – Altered and consolidated the rules that discipline repo operations involving fixed rate securities. The major alterations introduced are aimed at increasing incentives to the carrying out of repo operations based on private fixed rate securities, so as to achieve greater development of the secondary market for these papers. In this sense, the carrying out of repo operations involving Rural Product Notes with financial settlement clauses, with certificates and letters of credit earmarked to agribusiness operations and export credit bills and notes was permitted. On the other hand, effective as of July 2006, the carrying out of repo operations with securities issued or accepted by the entity itself was prohibited. Aside from this, the contracting of repo operations with individuals and nonfinancial corporate entities was permitted, with the objective of involving private securities. Previously, the parties involved in such operations were allowed to use only federal public securities in these operations. Another measure adopted was permission to negotiate securities at unit prices in repo operations. This system is significantly different from market practices.

**3,340, dated 2.3.2006** – Deals with the granting of federal government loan for the 2005/2006 grape harvest.

**3,341, dated 2.3.2006** – Altered the Regulations of the National Program for Strengthening Family Agriculture (Pronaf).

**3,342, dated 2.3.2006** – Reprogrammed installments of financing reserved to the recovery of degraded cultivated pasture land located in the state of Acre, contracted with resources administered by the National Bank of Economic and Social

Development (BNDES), in the framework of the Program of Agricultural Modernization and Conservation of Natural Resources (Moderagro).

**3,343, dated 2.3.2006** – Altered the conditions defined for current expenditure financing of the soybean crop and deals with coffee marketing operations, 2004/2005 harvest.

**3,344, dated 2.3.2006** – Defined the weighting factor applied to the balance of Banco do Brasil S.A. operations with funds obtained in rural savings deposits (MCR 6-4) for purposes of compliance with reserve requirements.

**3,345, dated 2.3.2006** – Reprogramed payments of financing debts in the framework of the Program of Recovery of the Bahia Cocoa Crop.

**3,346, dated 2.8.2006** – Instituted and regulated Procapcred, a program designed to strengthen the asset structures of single credit Unions through financing granted to members for purposes of acquiring capital participation.

**3,347, dated 2.8.2006** – Deals with the channeling of savings deposit resources obtained by Brazilian System of Savings and Loans (SBPE) member institutions. It refers to the application of the multiplication factor of 1.5 to comply with demands regarding investments in real estate in amounts between R\$80,000 and R\$100,000. Previously restricted to financing in the SFH framework, this system has been extended to operations granted at market rates since the system of independent accounting for each real estate development project was adopted. Furthermore, for purposes of calculating reserve requirements, investments and acquisitions of building materials, refurbishing or expansion of properties based on SFH rules and infrastructural projects in urban residential and commercial areas or commercial real estate at market rates were also permitted.

**3,348, dated 2.23.2006** – Authorized inclusion of current expenditure operations involving irrigated crops in the Farm Activity Guarantee Program (Proagro).

**3,349, dated 2.23.2006** – Deals with investments in financial and capital markets by investors resident, domiciled or headquartered abroad. Defined 6.30.2006 as the deadline for foreign investments in Brazil registered at the Central Bank of Brazil and Securities and Exchange Commission under the terms of the Regulations in Appendix III to Resolution no. 1,289, dated 3.20.1987 to be transferred to the modality defined in Resolution no. 2,689, dated 1.26.2000.

**3,350, dated 2.24.2006** – Deals with adjustments in the rules covering financing in the framework of controlled rural credit resources.

**3,351, dated 2.24.2006** – Altered Regulations of the National Program for Strengthening Family Farming (Pronaf).

**3,352, dated 2.24.2006** – Instituted the Crop/Livestock Integration Program (Prolapec).

**3,353, dated 3.31.2006** – Defined the Long-Term Interest Rate (TJLP) for the second quarter of 2006.

**3,354, dated 3.31.2006** – Altered and consolidated rules on the calculation methodology for the Basic Financing Rate (TBF) and Reference Rate (TR), altering parameter “b” of the TR reduction factor, which will henceforward be the value of the TBF on the reference day. The purpose of this measure is to make a negative TR impossible should the TBF distance itself sharply from the Selic rate target.

**3,355, dated 3.31.2006** – Altered Resolution no. 3,059/2002, dealing with accounting registration of financial institution tax credits. Refers to active accounting of tax credits resulting from fiscal losses in calculation of the income tax and social contribution on net profits. Such registration is to be done through future tax and contribution liabilities. The major alteration refers to the change in the maximum period for the tax credits, which was altered from five years to 10 years. Consequently, only the amounts of tax credits with expectation of realization in 10 years may be registered as assets.

**3,356, dated 3.31.2006** – Altered Resolution no. 3,265/2005, which deals with the exchange market and takes other measures.

**3,357, dated 3.31.2006** – Altered the Regulations appended to Resolution no. 3,121/2003, which deals with guidelines referring to investment of the resources generated by benefit plans of closed complementary pension funds.

**3,358, dated 3.31.2006** – Altered the Regulations appended to Resolution no. 3,308/2005, which deals with investment of the reserve resources, provisions and funds of insurance companies, capitalization companies and open complementary pension fund companies, as well as acceptance of the corresponding assets as guarantors of the respective resources, based on the terms of current legislation and regulations.

**3,359, dated 4.5.2006** – Deals with wheat marketing operations under the terms of the Special Credit Line (LEC).

**3,360, dated 4.5.2006** – Based on resources from the Coffee Economy Defense Fund (Funcafé), instituted credit lines reserved to financing the harvest and stocking of the 2005/2006 coffee harvest and Coffee Acquisition Financing (FAC) operations by the industrial sector, while also dealing with marketing of Arabian and robust coffees from the 2005/2006 harvest, based on the terms of the Special Credit Line (LEC).

**3,361, dated 4.5.2006** – Deals with substitution of guaranties in EGF operations and corn marketing credits, based on the terms of obligatory resources (MCR 6-2).

**3,362, dated 4.26.2006** – Deals with marketing credits based on controlled resources.

**3,363, dated 4.26.2006** – Deals with reprogramming of matured installments of current expenditure financing and granting of additional time for installments maturing in 2006.

**3,364, dated 4.26.2006** – Deals with reprogramming of matured installments of agricultural investment operations and granting of additional time for installments maturing in 2006.

**3,365, dated 4.26.2006** – Included article 9-F in Resolution no. 2,827, dated 3.30.2001 – Highway Intervention Program (Provias).

**3,366, dated 5.26.2006** – Altered the time limits for demonstrating losses in undertakings supported by the Farm Activity Guaranty Program (Proagro) – 2005/2006 harvest, and authorizes the Central Bank of Brazil to alter them when this is considered essential for purposes of program execution.

**3,367, dated 5.26.2006** – Deals with spending attributed to the Farm Activity Guaranty Program (Proagro).

**3,368, dated 5.26.2006** – Deals with investment abroad of available foreign currency resources belonging to banks authorized to operate in exchange. Disciplines foreign currency investments abroad by banking institutions authorized to operate in exchange.

**3,369, dated 6.14.2006** – Deals with alterations in the rules covering financing contracted on the basis of controlled rural credit resources as of the 2006/2007 harvest, as well as the granting of additional time for payment of installments related to 2005/2006 harvest current expenditures, operations formalized with

resources that can be equalized by cooperative banks and Banco do Brasil S.A., under the terms of Rural Proger and Pronaf (Groups “d” and “e”).

**3,370, dated 6.14.2006** – Deals with alterations in investment programs backed by funding equalized by the National Treasury with BNDES and with the special Finame Agricultural Credit line.

**3,371, dated 6.16.2006** – Deals with the granting of a bonus to Pronaf farm families for prompt payment of current expenditure financing of cotton, rice, beans, manioc, corn, soybeans and dairy activity, due to mature in 2006, together with alterations in the maturities of these operations.

**3,372, dated 6.19.2006** – Altered Resolution no. 2,827, dated 3.30.2001, which deals with imposition of conditioning factors on credits granted to the public sector.

**3,373, dated 6.16.2006** – Deals with the reprogramming of already matured installments and granting of time for payment of installments maturing in 2006, involving crop/livestock investment operations.

**3,374, dated 6.19.2006** – In the Pronaf framework, deals with reprogramming of already matured installments and granting of time for payment of maturing installments of current expenditure and investment operations, as well as the granting of investment financing for reconversion and revitalization of job to production units.

**3,375, dated 6.19.2006** – Altered the regulations of the National Program for Strengthening Family Agriculture (Pronaf) and other provisions of the Rural Credit Manual (MCR).

**3,376, dated 6.19.2006** – Deals with the reprogramming of already matured installments and extinction of installments maturing in 2006 involving current expenditure and investment financing.

**3,377, dated 6.29.2006** – Reduced the Long-Term Interest Rate (TJLP) from 8.15% per year to 7.5% per year, effective in the third quarter of 2006.

**3,378, dated 6.29.2006** – Defined the inflation target for 2008 at 4.5% with a tolerance interval of more or less 2.0 p.p.

**3,379, dated 6.29.2006** – Defined obligatory rural credit investments under the terms of obligatory reserves (MCR 6-2) and rural savings (MCR 6-4).

**3,380, dated 6.29.2006** – Determined that financial institutions and other institutions authorized to operate by the Central Bank of Brazil must implement operational risk management structures. The purpose of this measure is to implement the new Basel Accord (Basel II) in Brazil, establishing capital requirements not only for credit and market risk, but also for the operational risk inherent to financial system activities. According to the terms of the resolution, operational risk is defined as the possibility of losses occurring as a result of failings, deficiencies or inadequacy of internal processes, persons and systems or external events. Among the operational risk events, one must include internal and external fraud, inadequate client, product and service-related practices and failings of information technology systems. Financial institutions must implement structures by December 31, 2007, in order to be able to identify, evaluate, monitor, control and mitigate operational risk.

**3,381, dated 6.29.2006** – Extended the period defined in article 1 of Resolution no. 3,105/2003 and establishes a new schedule for classification of the National Bank of Economic and Social Development (BNDES) within the limits on investment of resources in Fixed Assets.

**3,382, dated 6.29.2006** – Permitted commercial banks, investment banks, multiple banks with commercial or investment portfolios, development banks and savings banks to contract loans in real with multilateral financial organizations authorized to carry out funding operations on the Brazilian market. The resources received by the financial institutions in question should be targeted to private productive undertakings within the national territory.

**3,383, dated 7.4.2006** – Included family farmers resettled as a result of dam construction among the beneficiaries of group “A” of the National Program for Strengthening Family Farming (Pronaf).

**3,384, dated 7.4.2006** – Altered the earnings of financial agents in operations supported by the Coffee Economy Defense Fund (Funcafe).

**3,385, dated 7.4.2006** – Altered provisions of the National Program for Strengthening Family Farming (Pronaf).

**3,386, dated 7.4.2006** – Altered the date stated in article 1 of Resolution no. 3,345/2006, which reprograms financing debt payments under the terms of the Bahia Cocoa Crop Recovery Program.

**3,387, dated 7.21.2006** – Deals with adjustments in the Program of Modernization of the Farm Tractor Fleet and Like Implements and Harvesters (Moderfrota).

**3,388, dated 7.28.2006** – Altered the conditions of the Farm Activity Guaranty Program (Proagro).

**3,389, dated 8.4.2006** – Deals with reception of the value of Brazilian exports and revokes the rules cited therein. Sets the value that Brazilian exporters of merchandise and services are permitted to maintain abroad at a maximum of 30% (thirty percent) of export revenues. The remaining 70% is subject to obligatory inflow to Brazil, albeit under more flexible rules better adapted to current reality. Should there be interest in maintaining a volume of resources abroad above the 30% limit, the exporter will be permitted to formalize simplified simultaneous exchange operations with the same banking institution and at the same rate of exchange, without issue or reception of payment orders sent to or received from abroad. This Resolution was regulated by the Central Bank Circular no. 3,325, dated 8.24.2006.

**3,390, dated 8.4.2006** – Deals with adjustments in current rules on financing through the use of controlled rural credit resources, includes peanuts among the activities benefited by the reprogramming of matured installments and extension of installments already matured in 2006 and alters Resolutions no. 3,373 and 3,376, both dated 2006, which deal with the reprogramming of matured installments and the granting of time periods for payment of installments maturing in 2006, involving current expenditure and investment operations.

**3,391, dated 8.9.2006** – Deals with the terms and maturities of Federal Government Loans (EGF).

**3,392, dated 8.18.2006** – Deals with coverage of losses by the Farm Activity Guarantee Program (Proagro), exclusively in the 2004/2005 harvest, based on the terms of article 12 of Law no. 11,322/2006.

**3,393, dated 8.18.2006** – Authorized the National Bank of Economic and Social Development (BNDES) to transfer funding equalized by the National Treasury to duly accredited single credit unions and central credit unions in the 2006/2007 harvest, for investment in crop/livestock current expenditure credit lines of groups “D” and “E” of the National Program for Strengthening Family Farming (Pronaf).

**3,394, dated 8.18.2006** – Deals with formalization of the credit operations cited in article 15 of Law no. 11,322/2006, referring to operations contracted under the terms of Resolutions no.s 2,238/1996, 2,471/1998 and 2,681/1999, and later alterations.

**3,395, dated 8.18.2006** – Deals with the granting of bonuses for farm families participating in the National Program for Strengthening Family Farming (Pronaf) for maintaining their current expenditure financing up-to-date in the segments of cotton, rice, beans, manioc, corn, soybeans and dairy activities, with maturities in 2006.

**3,396, dated 8.18.2006** – Altered the rules of the Coffee Economy Defense Fund (Funcafe) and increases the sum total of the credit limit for rural producers in the marketing of coffee, in the 2005/2006 harvest.

**3,397, dated 8.29.2006** – Deals with the National Industrial Structure Modernization Program (Modermaq), as dealt with in Resolution no. 3,227, dated August 5, 2004.

**3,398, dated 8.29.2006** – Deals with measures applicable in cases of noncompliance with the operational limits of financial institutions. This Resolution defines the extent of the procedures applicable to cases of noncompliance with minimum capital requirements, noncompliance with operational limits on exposure per client and investment of resources in Fixed Assets. According to these procedures, the Central Bank of Brazil, having corroborated cases of noncompliance with minimum capital limits and net worth as required by Resolution no. 2,099, will convoke the legal representatives of the institution to submit a plan for normalizing the situation, together with the measures required. The plan should be presented within a period of not more than 60 days as of the date of consultation and must contain the guidelines required to achieve compliance, together with the respective implementation schedule, which cannot be for more than six months. This period may be extended for two additional periods of six months, at the discretion of the Central Bank. Parallel to this, Resolution no. 2,099 calls for implementation of an earmarked deposit as a means of fostering compliance on the part of the institution and imposes conditioning factors on the procedures followed in the distribution of results, in such a way as not to compromise minimum capital requirements and required net worth. In light of the efficacy of this system, it was considered important to apply it equally to cases of noncompliance with exposure limits per client and investment of resources in Fixed Assets, as foreseen in Resolution no. 2,844 and in Resolution no. 2,669.

**3,399, dated 8.29.2006** – Deals with the gathering and carrying out of interbank deposits. In order to enhance the possibilities of managing liquidity in smaller sized segments, this resolution has included mortgage companies and credit unions among the financial institutions eligible to receive and to effect interbank deposits. At the same time, it authorizes exchange brokerage companies to make this type of deposit. On the other hand, institutions authorized to invest in interbank deposits must observe the limit of risk diversification defined in

Resolution no. 2,844 as regards these investments, which corresponds to the maximum of 25% per client. Credit unions are exempted from this requirement, since they have their own specific limits.

**3,400, dated 9.6.2006** – Deals with alterations and improvements in the regulations covering the Credit Guarantee Fund (FGC). This Resolution increases the maximum value of the guarantee given by the FGC from R\$20,000 to R\$60,000, and authorizes the council of administration of that fund to reduce the percentage of the ordinary monthly contribution due by associated institutions from 0.025% to 0.0125%. The increase in FGC coverage ceiling to R\$60,000 not only reflects an updating of values that had not occurred since 1995, but also broadens the universe of guaranteed deposits, raises the degree of client confidence and fosters improvement in competitive conditions among financial institutions. With regard to the change in the percentage of the contribution to 0.0125%, it is thought that this reduction could generate greater efficiency without detriment to security and systemic credibility in today's scenario of enhanced financial system health generated by strengthening of the institutions involved and improvements in prudential regulations. At the same time, considering the improvements already introduced into FGC regulations, this resolution includes among Fund-guaranteed credits the balances existent in accounts that can not be operated through the use of checks and are reserved to controlling the payment flows of wages, retirement and pension benefits and similar items.

**3,401, dated 9.6.2006** – Deals with anticipated payment of credit and leasing operations, charging of fees on these operations, as well as the obligation of providing reference information.

**3,402, dated 9.6.2006** – Deals with the rendering of services involving payment of wages, retirement benefits and the like without charging fees. This Resolution has the objective of reconciling the interests of employers, employees and financial institutions, making it obligatory as of January 1, 2007, that credits involving payments of wages and the like be effected in the name of the beneficiaries through utilization of accounts that can not be operated by check and that are reserved to the recording and control of funding flows. The financial institution contracted for this purpose should ensure that transfers of their credits can be made in same day resources to the deposit accounts of the beneficiaries. Charging of fees on total or partial withdrawals is prohibited. Aside from this, the financial institution will be obligated to accept indication of the deposit account to be credited within a period of five business days, as of reception of notification from the beneficiary.

**3,403, dated 9.15.2006** – Deals with granting of marketing credits to be utilized to finance protection of prices and/or risk premiums and price equalization and,

as specified in article 16 of Law no. 11,322/2006, those acquiring premiums issued by the National Supply Company for purposes of negotiating the 2005/2006 soybean harvest.

**3,404, dated 9.22.2006** – Deals with renegotiation of debts originating in rural credit operations involving undertakings located in the area covered by the Northeast Development Agency (Adene).

**3,405, dated 9.22.2006** – Deals with individualization, recontracting, assumption and extension of terms for formalization of rural credit debt renegotiations under the terms of the Special Program of Credits to Agrarian Reform (Procera) and the National Program for Strengthening Family Farming (Pronaf), including those based on resources drawn from the Worker Support Fund (FAT) or the North, Northeast and Central-West Constitutional Financing Funds, according to the terms of article 10 of Law no. 11,322/2006.

**3,406, dated 9.27.2006** – Reduced the Long-Term Interest Rate (TJLP) from 7.5% per year to 6.85% per year, for the fourth quarter of 2006.

**3,407, dated 9.27.2006** – Deals with renegotiation of debts originating in rural credit operations linked to undertakings located in the area of activity covered by the Northeast Development Agency (Adene).

**3,408, dated 9.28.2006** – Deals with renegotiation of debts originating in rural credit operations formalized by January 15, 2001 and linked to undertakings located in the area of activity covered by the Northeast Development Agency (Adene).

**3,409, dated 9.27.2006** – Defined the methodology to be used in calculating the percentage of basic earnings of savings accounts, as dealt with in the paragraph of article 18-A of Law no. 8,177/1991, with the text provided by article 1 of Provisional Measure no. 321/2006. This percentage will be calculated monthly on the basis of the simple arithmetic average of Reference Rates (TR) in effect on each day of the 90 previous days. The results will be announced on the final business day of each month by the Central Bank together with the maximum interest rate limit for fixed rate contracts in the framework of SFH.

**3,410, dated 9.28.2006** – Altered article 16 of the Regulations appended to Resolution no. 3,347/2006, which deals with the targeting of savings account resources by member institutions of the Brazilian System of Savings and Loans (SBPE).

**3,411, dated 9.28.2006** – Permitted classification of the current expenditures of the transgenic soybean crop in the State of Rio Grande do Sul – 2006/2007 harvest – in the framework of the Farm Activity Guarantee Program (Proagro).

**3,412, dated 9.27.2006** – Altered Resolution no. 3,265/2005, dealing with the exchange market and takes other measures. Eliminated the restriction on investments abroad in the capital and derivatives market by individual persons and corporate entities in general. Revoked Resolutions no. 1,968/1992 (investments in the Mercosul exchange), 2,356/1997 (Depository Receipts-DR) and 2,763/2000 (Brazilian Depository Receipts – BDR), dealing with investments in the capital and derivatives market in a differentiated manner, since this rule encompasses all Brazilian investments abroad without specific requirements as demanded by those rules. As far as financial transfers related to investments abroad by institutions authorized to operate by the Central Bank of Brazil and by funds of any nature are concerned, this Resolution maintained the requirement for observing CMN provisions and the specific regulations issued by the Central Bank of Brazil and Securities and Exchange Commission, according to their respective areas of jurisdiction.

**3,413, dated 10.4.2006** – Deals with reprogramming of payments of financing debts under the terms of the Bahia Cocoa Crop Recovery Program.

**3,414, dated 10.4.2006** – Deals with granting of time to financial institutions to formalize amendments referring to reprogramming of the installments of operations treated in Resolutions no. 3,363, 3,373 and 3,376, all dated 2006.

**3,415, dated 10.13.2006** – Regulated item II of article 5 of Law no. 10,260, dated July 12, 2001, which treats of the Higher Education Student Financing Fund (Fies).

**3,416, dated 10.24.2006** – Added a new provision to that contained in article 13 of the Regulations appended to Resolution no. 3,198/2004, which deals with rendering of services of independent auditing for financial institutions, other institutions authorized to operate by the Central Bank of Brazil and for clearing and settlement houses and service providers. This Resolution defined a period of up to May 31, 2007 for closed capital institutions in which capital control is held by the federal government, states or Federal District, to adjust to the basic conditions for exercising such a position in the audit committee as stated in article 13 of the Regulations appended to Resolution no. 3,198.

**3,417, dated 10.27.2006** – Altered Resolution no. 3,265, dated March 4, 2005, which dealt with the exchange market and took other measures, and Resolution

no. 3,389, dated August 4, 2006, which deals with reception of the value of Brazilian exports and takes other measures.

**3,418, dated 11.3.2006** – Deals with formalization of the credit operations treated in articles 15 and 15-A of Law no. 11,322/2006, referring to operations contracted under the terms of Resolutions no. 2,238/1996, 2,471/1998 and 2,681/1999, with later alterations.

**3,419, dated 11.3.2006** – Deals with alterations in the rules covering Federal Government Loans (EGF) related to milk, when such loans are formalized on the basis of obligatory resources (MCR 6-2).

**3,420, dated 11.3.2006** – Deals with the granting of additional time for financial institutions to formalize amendments referring to the re-programming of installments of the operations treated in Resolutions no. 3,363, 3,373 and 3,376, all dated 2006.

**3,421, dated 11.3.2006** – Deals with the weighting factor applied to the balance of operations with resources obtained through rural savings deposits (MCR 6-4), for purposes of compliance with reserve requirements.

**3,422, dated 11.30.2006** – Revoked Resolution no. 3,310, dated August 2005, increasing the value limits on microfinancing operations targeted to the low income population and to micro-entrepreneurs. In this context, the ceilings were revised as follows: i) From R\$600.00 to R\$1,000.00 – for operations with individual persons with simplified accounts or when classified within the low income bracket; ii) From R\$1,500.00 to R\$3,000.00 – for operations targeted to making productive undertakings feasible; from R\$5,000.00 to R\$10,000.00 – for operations granted under the terms of the National Targeted Productive Microfinancing Program (PNMPO), instituted by Law no. 11,110, dated 4.25.2005. At the same time, this Resolution introduced other modifications, as follows: i) Revision of the maximum average monthly balance in deposit accounts (excluding simplified accounts) from R\$1,000.00 to R\$3,000.00 for individual beneficiaries of microfinancing operations; ii) Increase in the maximum sum total of credit operations for which each entrepreneur or beneficiary microbusiness is liable from R\$10,000.00 to R\$15,000.00, with the exception of housing credit operations; iii) Determination of a single percentage for the opening of targeted productive microfinancing operations – 3% of the value of the operation – thus eliminating the scaled limits based on the maturity of the operation, which varied from 2% to 4%.

**3,423, dated 12.1.2006** – Deals with the credit line targeted to financing of current expenditures related to the 2006/2007 coffee harvest, based on Funcafé resources.

**3,424, dated 12.21.2006** – Extended the period determined in article 1 of Resolution no. 3,402/2006, and deals with application of the content of that provision to the rendering of services based on agreements or contracts effectively implemented by financial institutions up to September 5, 2006.

**3,425, dated 12.21.2006** – Deals with loans and financing granted by mortgage companies, which now include acquisitions of residential or commercial real estate and urban lots, as well as those guaranteed by mortgages or by chattel mortgages involving their own or third-party real estate.

**3,426, dated 12.21.2006** – Deals with constitution and operation of financial institutions specialized in exchange operations. The regulations created the conditions required for constitution of financial institutions with profiles different from other financial institutions. These new institutions must include the expression “Exchange Bank” in their legal names and are permitted to make exchange operations feasible particularly for individuals, micro and small businesses, including, for example, international transfers of small amounts and simplified export and import operations. In their activities, they may, aside from utilizing their own resources, use other resources originating in interbank onlendings, interbank deposits and resources obtained abroad. This measure will enhance competition and expand opportunities of access to economic agents on the exchange market.

**3,427, dated 12.21.2006** – Determined adoption of a regulatory and supervision model based on risk as a policy to be observed on the securities market and as a general guideline for Securities and Exchange Commission (CVM) activities. Such a model must encompass a system that identifies, measures and determines ways of mitigating the risks to which the supervised market is exposed, as well as controlling and monitoring occurrences of such risks. With this purpose in mind, this Resolution determined that the CVM should implement a Risk-Based Supervision System for the securities market, including the following minimum institutional mechanisms to be remitted to the National Monetary Council for its knowledge: Two-Year Supervision Plan and Half-Year Risk Monitoring Report.

**3,428, dated 12.21.2006** – Reduced the Long-Term Interest Rate (TJLP) from 6.85% per year to 6.5% per year, to remain in effect in the first quarter of 2007.

**3,429, dated 12.21.2006** – Altered the period determined in the title of articles 9-F and 9-G of Resolution no. 2,827, dated 3.30.2001, referring to the Highway Intervention Program (Provias).

**3,430, dated 12.21.2006** – Included article 9-H in Resolution no. 2,827, dated 3.30.2001 – Establishment of the National Bank of Economic and Social Development (BNDES) Financing Line for State Government Modernization of Revenue Administration and Fiscal, Financial and Asset Management.

**3,431, dated 12.21.2006** – Deals with reprogramming of payments of financing debts under the terms of the Bahia Cocoa Harvest Recovery Program.

**3,432, dated 12.21.2006** – Deals with the granting of terms to farm families to request investment financing for the reconversion and revitalization of production units.

**3,433, dated 12.21.2006** – Altered Resolution no. 3,407/2006, which deals with renegotiation of debts originating in rural credit operations related to undertakings located in the area of the jurisdiction of the Northeast Development Agency (Adene), as a result of the modifications introduced into Law no. 11,322/2006 by Law no. 11,420/2006.

**3,434, dated 12.21.2006** – Deals with recontracting, extension and individualization of rural credit operations backed by resources drawn from the Special Program of Credits to Agrarian Reform (Procera), in those cases in which the requests for such have been duly registered or submitted formally to financial agents by 5.31.2004, as authorized by article 11 of Law no. 11,322/2006, with the text introduced by Law no. 11,420/2006.

**3,435, dated 12.21.2006** – Deals with credits to be utilized in payment of quota shares.

**3,436, dated 12.21.2006** – Deals with price guarantees in the financing of current expenditures of the rice, beans, corn, manioc and soybean harvests, as well as milk production, granted in the framework of the National Program for Strengthening Family Farming (Pronaf).

## Foreign Trade Chamber Resolutions

**2, dated 2.22.2006** – Altered the *ad valorem* rates of the import tax on capital goods included in the appended list under the ex-tariff classification to 2% through 12.31.2007, and adopts other measures.

**3, dated 2.22.2006** – Altered the *ad valorem* rates of the import tax on informatics goods included in the appended list under the ex-tariff classification to 2% through 12.31.2007, and adopts other measures.

**4, dated 2.22.2006** – Altered the List of Exceptions to the TEC. Nondenatured ethyl alcohol and cement were included.

**5, dated 3.16.2006** – Altered the *ad valorem* rates of the import tax on informatics and telecommunications goods included in the appended list to 2%, through 12.31.2007, in the ex-tariff condition, and adopts other measures.

**6, dated 3.16.2006** – Altered the *ad valorem* rates of the import tax on capital goods included in the appended list to 2%, through 12.31.2007, in the ex-tariff condition, and adopts other measures.

**8, dated 5.4.2006** – Altered the *ad valorem* rate of the Import Tax on Informatics and Telecommunications Goods cited therein to 2%, effective until 6.30.2008, in the ex-tariff condition and takes other measures.

**9, dated 5.4.2006** – Altered the *ad valorem* rate of the Import Tax on the Capital Goods specified therein to 2% effective until 6.30.2008, in the ex-tariff condition and takes other measures.

**11, dated 6.8.2006** – The *ad valorem* rates of the Import Tax on capital goods and integrated systems specified therein were altered to 2% (two percent) through 6.30.2008, in the ex-tariff condition.

**12, dated 6.8.2006** – The *ad valorem* rates of the Import Tax on the Informatics and Telecommunications products specified therein were altered to 2% (two percent) through 6.30.2008, in the ex-tariff condition.

**15, dated 6.29.2006** – Altered the NCM and TEC, dealt with in Appendix I of Camex Resolution no. 42, dated 12.26.2001.

**17, dated 7.5.2006, and 20, dated 7.27.2006** – Altered the *ad valorem* rates of the Import Tax on Capital Goods and Integrated Systems specified therein, to 2% up to 6.30.2008, in the ex-tariff condition.

**21, dated 8.9.2006, republished on 8.16.2006** – Altered the *ad valorem* import tax to 2%, effective until 6.30.2006, on the components of the integrated systems listed therein.

**24, dated 8.25.2006** – Altered the *ad valorem* rates of the import tax to 2%, effective until 6.30.2008, on the informatics and telecommunications goods listed therein, in the ex-tariff condition.

**25, dated 8.25.2006** – Altered the *ad valorem* rates of the import tax to 2%, effective until 6.30.2008, on the capital goods and on the components of integrated systems listed therein, in the ex-tariff condition, and modifies Camex Resolution no.s 1/2005, 8/2005, 14/2005, 2/2006, 6/2006, 9/2006, 11/2006 and 20/2006.

**27, dated 9.22.2006** – Altered the *ad valorem* rates of the Import Tax on capital goods and components of integrated systems to 2% until 6.30.2008, when levied on Informatics and Telecommunications Goods specified therein, in the ex-tariff condition. Alters Camex Resolutions no. 2, 9, 11, 20 and 25/2006 and 41/2005.

**28, dated 9.22.2006** – Altered the *ad valorem* rates of the Import Tax on Informatics and Telecommunications Goods specified therein to 2% until 6.30.2008, in the ex-tariff condition.

**29, dated 9.27.2006** – Altered the Common Mercosul Nomenclature (NCM) and import tax rates on the products specified therein – liquid helium, chemical products, resins, polymers, electronic microsets – included in the Common External Tariff (TEC), as dealt with in Appendix I of Resolution no. 42/2001.

**35, dated 11.22.2006** – Defined procedures for granting of ex-tariff status and revoked Camex Resolution no. 8, dated 3.22.2001.

**39, dated 12.6.2006** – Altered the *ad valorem* rates of the Import Tax on informatics and telecommunications goods listed therein in the ex-tariff condition to 2%, effective until 12.31.2008, and extended to the same date the effectiveness of the ex-tariff goods specified therein, as determined in Camex Resolution no. 1/2005.

**40, dated 12.6.2006** – Altered the *ad valorem* rates of the Import Tax on Capital Goods and components of the Integrated Systems listed therein in the ex-tariff condition to 2% until 12.31.2008; extended to the same date the effectiveness of the items listed in Resolutions no.s 27/2002, 38/2002, 7/2003, 26/2004, 33/2004, 1/2005, 3/2005 and 8/2005; altered Resolutions no.s 8/2005, 14/2005, 31/2005, 41/2005, 6/2006, 17/2006, 20/2006, 25/2006, 28/2006, 32/2006 and 31/2006; and excluded the items listed in Resolutions no.s 2/2006 and 11/2006.

**42, dated 12.19.2006** – Determined that tanned and peeled cattle leather and hides (including buffalo), including those already divided, but that have not been

prepared in any other way, classified under NCM positions 4104.11 and 4104.19, are subject to levying of the export tax at the rate of 9% and revoked Resolution no. 42/2005, effective as of 1.1.2007.

**43, dated 12.22.2006** – Altered the NCM and the Import Tax (II) rates included in the TEC and revoked the norms mentioned therein. Appendix II of the Resolution defined the List of Exceptions to the TEC. The BITs List of Exceptions, with the respective II rates was to remain in effect until 6.30.2007, according to the terms of Appendix III of this Resolution, while the rate reductions already granted to the BITs in the ex-tariff condition remained in effect. With the extension of the Common System of Capital Goods Not Produced in Mercosul until 1.1.2009, the reductions of the II rates granted in the ex-tariff condition to BK and SI will remain in effect in the manner and for the periods indicated in the Camex Resolutions that granted them.

## National Petroleum Council Resolution

**4, dated 11.21.2006** – Established the guidelines and recommended actions aimed at implementing Liquefied Natural Gas Import Projects (GNL), to be made available to the Brazilian market with the purpose of ensuring a reliable, secure and diversified supply of natural gas.

## Federal Senate Resolution

**33, dated 7.13.2006** – Authorized the Federal District, states and municipalities to assign their consolidated active debts to financial institutions for purposes of charging by endorsement, through anticipation of revenues up to the face value of the credits, provided that the limits and conditions defined by Complementary Law no. 101, dated 5.4.2000, and by 2001 Federal Senate Resolutions no.s 40 and 43 be duly respected.

## Central Bank of Brazil Circulars

**3,308, dated 1.4.2006** – Altered section 13 of chapter 12 of title 1 of the International Exchange and Capital Market Regulations (RMCCI), dealing with fines on import operations, with due consideration of Law no. 11,196/2005.

**3,309, dated 1.12.2006** – Released the sampling dealt with in article 1 of Resolution no. 2,809/2000, for purposes of calculating the Basic Financing Rate (TBF) and the Reference Rate (TR).

**3,310, dated 1.12.2006** – Determined procedures for remittances of monthly client-related information within the framework of the Central Credit Risk System (CRC) and the Central Bank Credit Information System (SCR).

**3,311, dated 2.2.2006** – Defined procedures to be observed by financial institutions and other institutions authorized to operate by the Central Bank of Brazil, with regard to the structuring of processes of election or nomination to legally required positions within such institutions.

**3,312, dated 2.2.2006** – Permitted repo operations based on securities issued by the International Finance Corporation (IFC) and revoked Circular no. 3,265/2004.

**3,313, dated 2.2.2006** – Defined the form, limits and conditions for a declaring properties and values held abroad by individuals or corporate entities resident, domiciled or headquartered in the country.

**3,314, dated 2.2.2006** – Deals with alterations in the capital stock, constitution of reserve funds, disposition of remaining amounts and the offsetting of credit Union.

**3,315, dated 2.17.2006** – Altered chapter 16 of title 1 of International Exchange and Capital Market Regulations (RMCCI) for purposes of updating them in light of United Nations Security Council Resolutions (UNSC).

**3,316 dated 3.9.2006** – Approved the new Regulations of the Special System of Clearance and Custody (Selic). The new regulations make it possible to adjust operations registered at Selic to current legislation, while adopting new functionalities aimed at optimizing the system. With regard to alterations in the types of operations, forward repo operations were included among those subject to Selic registration, as regulated by Resolution no. 3,339/2006, together with extinction of the possibility of reverse entry of forward operations.

**3,317, dated 3.29.2006** – Deals with procedures to be followed in formalizing requests for participation or increases in foreign participation in the capital of financial institutions and other institutions authorized to operate by the Central Bank of Brazil, thus complementing the provisions in Circular no. 3,179/2003, as well as for the opening of branches in the country belonging to financial institutions domiciled abroad.

**3,318, dated 4.3.2006** – Deals with the providing of information for purposes of calculation of the Basic Financing Rate (TBF) and Reference Rate (TR), as dealt with in Resolution no. 3,354, dated March 2006.

**3,319, dated 4.3.2006** – Adjusted International Exchange and Capital Market Regulations (RMCCI), included in Resolution no. 3,356/2006.

**3,320, dated 4.12.2006** – Altered the deadlines for submitting proof of losses in undertakings supported by “Proagro Mais” – 2005/2006 harvest.

**3,321, dated 4.17.2006** – Altered Chapter 16 of Title 1 of International Exchange and Capital Market Regulations (RMCCI), in order to update them according to the terms of Decree 5,694/2006, referring to the Ivory Coast.

**3,322, dated 5.17.2006** – Deals with the schedule for providing services to the public in the offices of financial institutions and other institutions authorized to operate by the Central Bank of Brazil on days on which the Brazilian national team plays during the 2006 World Cup.

**3,323, dated 5.30.2006** – Altered the limits for utilization of the available resources of financial institutions for complying with reserve requirements and obligatory reserves on their demand resources, as required by Circular no. 3,274, dated 2.10.2005, and took other measures.

**3,324, dated 7.20.2006** – Released the sampling dealt with in article 1 of Resolution no. 3,354/2006, for purposes of calculating the Basic Financing Rate (TBF) and the Reference Rate (TR).

**3,325, dated 8.24.2006** – Regulated CMN Resolutions no. 3,389, dated 8.4.2006. The period for settlement of export exchange contracts was expanded from up to 210 days to up to 360 days. This same period of 360 days between contracting and settlement of the import exchange operation was maintained. Aside from this, it permits utilization of available funding maintained in banks abroad to effect foreign payments in the name of the account holder, with the exception of the specific items set down in Provisional Measure no. 315, converted into Law no. 11,371, dated 11.29.2006. It eliminated the limits on simplified exchange contracting in import and export operations, when carried out with a banking institution. The limit on simplified export and import exchange operations was specified at US\$20,000, when such operations are carried out in other National Financial System member institutions authorized to operate on the exchange market. Aside from this, procedures for simultaneous contracting of simplified export exchange operations for purposes of constituting available funding abroad were defined.

**3,326, dated 9.12.2006** – Deals with interbank transfers of resources as dealt with in Resolutions no.s 3,401 and 3,402, dated September 6, 2006. This Circular determined that the system of Available Electronic Transfer (TED) be utilized exclusively in transfers of resources from the payment flow registration and control account involving wages and the like, as well as in transfers targeted to anticipated settlement of credit and leasing operations.

**3,327, dated 9.26.2006** – Altered and consolidated the provisions related to the calculation base and deposits of ordinary contributions by institutions associated to the Credit Guarantee Fund (FGC).

**3,328, dated 10.10.2006** – Altered Regulations on the International Exchange and Capital Market (RMCCI).

**3,329, dated 10.13.2006** – Announced carrying out of the 2006 Census of Foreign Capital in the Country.

**3,330, dated 10.27.2006** – Altered International Exchange and Capital Market Regulations (RMCCI).

**3,331, dated 11.16.2006** – Altered International Exchange and Capital Market Regulations (RMCCI).

**3,332, dated 12.4.2006** – Defined the system of calculating the limit for guided productive microfinancing operations and criteria for verifying compliance with the requirement regarding investment of demand deposit resources in microfinancing operations and defines the procedures to be followed in remitting information on such operations.

**3,333, dated 12.5.2006** – Altered the limit on exposure in gold and other assets and liabilities referenced to exchange from 30% (thirty percent) to 60% (sixty percent), as treated in article 1 of Resolution no. 2,606, dated 5.27.1999. Revoked Circular no. 3,156, dated 10.11.2002.

**3,334, dated 12.5.2006** – Deals with inclusion and exclusion of occurrences involving checks issued against joint accounts and against accounts in the name of corporate entities governed by private or public law in the Overdraft Check Issuers File (CCF).

**3,335, dated 12.14.2006** – Instituted the Special Credit Transfer, dealt with interbank settlements and interbank settlements of Available Electronic Transfers and Credit Documents, as well as with the moment of crediting of resources to the beneficiary account.

**3,336, dated 12.14.2006** – Deals with interbank transfers of resources as treated in Resolutions no.s 3,401 and 3,402/2006.

**3,337, dated 12.19.2006** – Altered the tariffs of the Reserve Transfer System, treated in appendix II of the regulations appended to Circular no. 3,100/2002.

**3,338, dated 12.19.2006** – Established additional conditions for operation of the registration and control accounts cited in article 1 of Resolution no. 3,402 and in Resolution no. 3,424, both dated 2006.

**3,339, dated 12.19.2006** – Deals with the procedures to be observed by multiple banks, commercial banks, savings banks, credit unions and savings and loan associations for monitoring the financial operations of politically exposed persons.

## Foreign Trade Secretariat Circulars

**2, dated 1.5.2006** – Announced that consolidated and selected information specific to Brazil is available on the MDIC Internet homepage dealing with the General Regime of the General System of Preferences of the European Union, with validity from 1.1.2006 to 12.31.2008.

**3, dated 1.6.2006** – Announced alterations introduced into the General System of Preferences of the United States, as published in the Federal Register, dated 12.29.2005, volume 70, no. 249.

**9, dated 3.9.2006** – Distributed the import quota of 210,000 vehicles among the companies listed therein, based on the rules of the Brazil-Mexico automotive trade defined in ACE-55 between Mercosul and Mexico and revoked Circular no. 24/2005.

**47, dated 7.5.2006** – Announced that United States authorities had begun the process of the 2006 annual review of the General System of Preferences (GSP) of the United States of America.

**50, dated 7.18.2006** – Announced the final result of the 2005 Annual Review of the United States SGP.

**52, dated 8.3.2006** – Distributed the quota of 6,500 automobiles and light commercial vehicles of up to 1,500 kg cargo capacity among the companies specified therein, entitled to the 100% tariff preference benefit in exports from Brazil to Uruguay.

**54, dated 8.14.2006** – Announced that the USTR has issued a notification on its electronic site ([http://www.ustr.gov/assets/Document\\_Library/Federal\\_Register\\_Notices/2006/August/asset\\_upload\\_file105\\_9726.pdf](http://www.ustr.gov/assets/Document_Library/Federal_Register_Notices/2006/August/asset_upload_file105_9726.pdf)) with regard to the start of the review of the eligibility of certain SGP beneficiary countries and maintenance of waivers of competitive need limitations (CNL).

**75, dated 11.1.2006** – Announced the system of redistribution among national companies of the quota of 6500 automobiles and light commercial vehicles of up to 1500 kg of cargo capacity, as covered by the codes of the Mercosul Common Nomenclature (NCM), included in Appendix I of the 31st Additional Protocol to Economic Complementation Agreement<sup>18</sup>, complying with the provisions contained in the 62nd Additional Protocol to Economic Complementation Agreement 2, eligible for the benefit of 100% tariff preference in Brazilian exports to Uruguay, and revoked Secex Circular no. 52/2006.

**87, dated 12.22.2006** – Announced the decision to approve the Cooperation Criteria Agreement formalized between Abrinq and the China Chamber of Commerce for I/E of Light and Industrial Products & Art-Crafts and the China Toy Association (CTA), in the framework of the Memorandum of Understanding on the Strengthening of Trade and Investment Cooperation, formalized between Brazil and China.

## Central Bank of Brazil Communiqués

**15,144, dated 12.14.2006** – Released information regarding the electronic data transmission mechanism dealt with in Joint SRF/BCB Directive no. 1,064, dated 10.26.2006 and CMN Resolution no. 3,417, dated 10.27.2006.

## Interministerial Directive

**23, dated 2.2.2006** – Deals with the offsetting of debts involving taxes administered by the Federal Revenue Secretariat and debts included among those subject to judicial execution and with extinction of debts related to the social contributions specified in lines “a”, “b” and “c” of the paragraph of article 11 of Law no. 8,212, dated 7.24.1991, or to the contributions instituted as substitutes and in relation to the National Social Security Institute debt subject to judicial execution, according to the terms of the provision in article 7 of Decree Law no. 2,287, dated 7.23.1986, altered by article 114 of Law no. 11,196, dated 11.21.2005.

## Ministry of Agriculture, Livestock and Supply Directives

**82, dated 4.4.2006** – Published the additional quota of sugar exports targeted to the North American market, in the 2005/2006 period.

## Ministry of Finance Directive

**364, dated 11.1.2006** – Altered Directive no. 204/1996, which established the terms and conditions for installation and operation of free shops in the country. These establishments were given the alternative of making payment in national currency, which had previously been permitted only in convertible foreign currencies. At the same time, it introduced other alterations into the system, including adjustments related to control of payments of imported merchandise received specifically for sale through such free shops, through the use of an Import Declaration (DI) issued to the System by the parties involved. These imports enter the country with suspension of taxation, which is converted into an exemption after corroboration of sale to passengers, provided that such acquisitions are not greater than US\$500.00; should the contrary occur, such operations will be subject to the special taxation system, according to which payment of the import tax will be required and will be calculated at the rate of 50% of the value in excess of that limit.

## National Treasury Secretariat Directives

**305, dated 3.31.2006** – Authorized issue of National Treasury Notes – Series I (NTN-I), in the amount of R\$18,431,468.30 (eighteen million, four hundred and thirty one thousand, four hundred and sixty eight reais and thirty centavos), referenced to 3.15.2006, to be utilized in payment of equalization of interest rates on export financing operations involving Brazilian goods and services supported by Proex.

**334, dated 4.24.2006** – Authorized issue of National Treasury Notes – Series I, in the amount of R\$27,131,957.15 (twenty seven million, one hundred and thirty one thousand, nine hundred and fifty seven reais and fifteen centavos), referenced to 4.15.2006, to be used in payment of equalization of interest rates on export financing operations involving Brazilian goods and services supported by Proex.

**413, dated 5.24.2006** – Authorized issuance of National Treasury Notes Series I in the amount of R\$13,200,839.91 (thirteen million, two hundred thousand, eight hundred and thirty nine reais and ninety one centavos), referenced to

5.15.2006, to be utilized in payment of interest rate equalization in export financing operations involving Brazilian goods and services supported by Proex.

**546, dated 8.1.2006** – Authorized issuance of National Treasury Notes Series I, NTN-I, in the amount of R\$21,784,033.16 (twenty one million, seven hundred and eighty four thousand and thirty three real and sixteen centavos), referenced to 7.15.2006, to be utilized in the payment of interest rate equalization in export financing operations involving Brazilian goods and services backed by Proex.

**627, dated 8.31.2006** – Authorized issuance of National Treasury Notes Series I, NTN-I, in the amount of R\$17,950,202.10 (seventeen million nine hundred and fifty thousand and two hundred and two real and ten centavos), referenced to 8.15.2006, to be utilized in payment of interest rate equalization in export financing operations involving Brazilian goods and services backed by Proex.

**709, dated 9.27.2006** – Authorized issuance of National Treasury Notes-Series I (NTN-I), in the amount of R\$23,713,740.08 (twenty three million, seven hundred and thirteen thousand, seven hundred and forty real and eight centavos), referenced to 9.15.2006, to be used in payment of interest rate equalization in export financing operations involving Brazilian goods and services backed by the Export Financing Program (Proex).

**859, dated 11.23.2006** – Authorized issuance of National Treasury Notes Series “I”, NTN-I, in the amount of R\$15,270,334.10 (fifteen million, two hundred and seventy thousand, three hundred and thirty four real and ten centavos), referenced to 11.15.2006, to be utilized in payment of interest rate equalization in operations involving the financing of exports of Brazilian goods and services supported by the Export Financing Program (Proex).

## Foreign Trade Secretariat Directives

**10, dated 5.16.2006** – Defined criteria for distribution of quotas among companies for imports of textiles and apparel from China in 2006.

**13, dated 6.28.2006** – In Appendix C of Directive 15/2004, which consolidates the regulatory provisions of export operations, altered the terms of Chapter 2 – Meats of the Bovine Species, in order to inform the public with respect to the criterion of distribution of the exportable contingent of 5,000 tons of fresh beef among national companies, in the Hilton quota modality, granted by the European Union to Brazil through Regulation (CE) no. 936/97, for the period between 7.1.2006 and 6.30.2007.

**35, dated 11.24.2006** – Consolidated all legislation referring to import and export administrative procedures.

## Federal Revenue Secretariat Normative Instructions

**611, dated 1.18.2006** – Deals with utilization of the simplified declaration in import and export operations. Raised the limit of exports entitled to utilize the Simplified Export Declaration (DSE) from US\$10,000 to US\$20,000.

**645, dated 4.18.2006** – Disciplined the treatment accorded to imported and exported merchandise that has complied with Mercosul Common Tariff Policy.

**646, dated 4.18.2006** – Disciplined the treatment accorded to imported and exported merchandise that has complied with Mercosul Rules of Origin.

**650, dated 12.5.2006** – Defined the rules for qualifying companies that desire to operate in foreign trade and desire to register a password in Siscomex. The objective of the measure is to enhance the flexibility of import and export operations, without in any way losing customs security, which only became possible as a result of improvements in customs administration. The most significant change involved simplified qualification of the operations, a system that now includes a much larger number of companies since, aside from the specific cases cited therein, it also covers companies that operate in an amount equal to or greater than US\$150,000 in a period of six months.



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# Appendix

**Members of the Conselho Monetário Nacional**

**Banco Central do Brasil Management**

**Central units (departments) of the Banco Central do Brasil**

**Regional offices of the Banco Central do Brasil**

**Acronyms**



## **Members of the Conselho Monetário Nacional (December 31, 2004)**

**Guido Mantega**

*Minister of Finance – President*

**Paulo Bernardo**

*Minister of Planning and Budget*

**Henrique de Campos Meirelles**

*Governor of the Banco Central do Brasil*

## **Banco Central do Brasil Management (December 31, 2004)**

### **Board of Directors**

**Henrique de Campos Meirelles**

*Governor*

**Afonso Sant’Anna Bevilaqua**

*Deputy Governor*

**Alexandre Antonio Tombini**

*Deputy Governor*

**Antonio Gustavo Matos do Vale**

*Deputy Governor*

**Mário Magalhães Carvalho Mesquita**

*Deputy Governor*

**Paulo Sérgio Cavalheiro**

*Deputy Governor*

**Paulo Vieira da Cunha**

*Deputy Governor*

**Rodrigo Telles da Rocha Azevedo**

*Deputy Governor*

### **Board of Governors Executive Secretariat**

*Executive Secretary:*

Milton Luiz de Melo Santos

*Secretary for the Board of Governors and  
for the Conselho Monetário Nacional:  
e Lima*

Sérgio Albuquerque de Abreu

*Secretary for Institutional Relations:*

Emidio Rodrigues Cordeiro

### **Consultants for the Board of Governors**

Alexandre Pundek Rocha

Carolina de Assis Barros

Clarence Joseph Hillerman Júnior

Dalmir Sérgio Louzada

Eduardo Fernandes

Flávio Pinheiro de Melo

Katherine Hennings

Marco Antonio Belem da Silva

Sidinei Corrêa Marques

## **Central units of the Banco Central do Brasil**(December 31, 2006)

### **Congressional Affairs Office (Aspar)**

Edifício-Sede – 19º subsolo  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Luiz do Couto Neto*

### **Currency Management Department (Mecir)**

Av. Rio Branco, 30  
20090-001 Rio de Janeiro (RJ)  
Head: *João Sidney de Figueiredo Filho*

### **Department of Analysis and Control of Disciplinary Actions (Decap)**

Edifício-Sede – 14º subsolo  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Claudio Jaloretto*

### **Department of Bank Liquidation (Deliq)**

Edifício-Sede – 13º andar  
SBS Quadra 3 Zona Central  
700074-900 Brasília (DF)  
Head: *José Irenaldo Leite de Ataíde*

### **Banking Operations Department (Deban)**

Edifício-Sede – 18º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *José Antônio Marciano*

### **Department of Economics (Depec)**

Edifício-Sede – 10º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Altamir Lopes*

### **Department of External Debt and International Relations (Derin)**

Edifício-Sede – 4º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Ivan Simas*

### **Department of Human Resources Administration (Depes)**

Edifício-Sede – 17º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Miriam de Oliveira*

### **Department of Material Resources Administration (Demap)**

Edifício-Sede – 1º subsolo  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Dimas Luís Rodrigues da Costa*

**Department of Off-site Supervision and Information Management (Desig)**

Edifício-Sede – 6º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Cornélio Farias Pimentel*

**Department of Planning and Management Overview of Supervisory Activities (Decop)**

Edifício-Sede – 14º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Sérgio Almeida de Souza Lima*

**Department of Supervision of Credit Unions and Non-banking Financial Institutions and Financial System Consumer Complaints (Desuc)**

Edifício-Sede – 16º andar  
Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Americo Ciccotti*

**Department of Surveillance of Illegal Activities and Supervision of Foreign Exchange and International Capital Flows (Decic)**

Edifício-Sede – 7º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Ricardo Lião*

**Department of Financial System Organization (Deorf)**

Edifício-Sede – 19º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Luiz Edson Feltrim*

**Department of Financial System Regulation (Denor)**

Edifício-Sede – 15º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Amaro Luiz de Oliveira Gomes*

**Department of International Reserves Operations (Depin)**

Edifício-Sede – 5º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Márcio Barreira de Ayrosa Moreira*

**Department of Open Market Operations (Demab)**

Av. Pres. Vargas, 730 – 6º andar  
20071-001 Rio de Janeiro (RJ)  
Head: *Ivan Luis Gonçalves de Oliveira Lima*

**Financial Administration and Budget Department (Deafi)**

Edifício-Sede – 16º subsolo  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Jefferson Moreira*

**Department of Information Systems Management (Deinf)**

Edifício-Sede – 2º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Fernando de Abreu Faria*

**Internal Auditing Department (Deaud)**

Edifício-Sede – 15º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *José Aísio Catunda Aragão*

**Legal Department (PGBCB)**

Edifício-Sede – 11º andar  
SBS Quadra 3 Zona Central  
700074-900 Brasília (DF)  
General Attorney: *Francisco José de Siqueira*

**On site Supervision Department (Desup)**

Av. Paulista, 1804 – 14º andar  
Bela Vista  
01310-922 São Paulo (SP)  
Head: *Oswaldo Watanabe*

**Office of the Corregidor (CGBCB)**

Edifício-Sede – 17º andar  
SBS Quadra 3 Zona Central  
700074-900 Brasília (DF)  
Corregidor: *Jaime Alves de Freitas*

**Office of the Ombudsman (Ouvid)**

Edifício-Sede – 13º andar  
SBS Quadra 3 Zona Central  
700074-900 Brasília (DF)  
Ombudsman: *Hélio José Ferreira*

**Planning and Budget Department (Depla)**

Edifício-Sede – 9º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *José Clóvis Batista Dattoli*

**Research Department (Depep)**

Edifício-Sede – 9º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Carlos Hamilton Vasconcelos Araújo*

**Security Department (Deseg)**

Edifício-Sede – 1º subsolo  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Sidney Furtado Bezerra*

## **Executive Office**

### **Exchange and Foreign Capital Regulation Executive Office (Gence)**

Edifício-Sede – 3º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Geraldo Magela Siqueira*

### **Executive Office for Monetary Policy Integrated Risk Management (Gepom)**

Edifício-Sede – 5º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Isabela Ribeiro Damaso Maia*

### **Executive Office for Projects (Gepro)**

Edifício-Sede – 17º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Nivaldo Peçanha de Oliveira*

### **Executive Office on Bank Privatization (Gedes)**

Edifício-Sede – 12º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Geraldo Pereira Junior*

### **Investor Relations Group (Gerin)**

Edifício-Sede – 13º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Renato Jansson Rosek*

### **Proagro Executive Office (GTPRO)**

Edifício-Sede – 19º andar  
SBS Quadra 3 Zona Central  
70074-900 Brasília (DF)  
Head: *Deoclécio Pereira de Souza*

## Regional offices of the Banco Central do Brasil(December 31, 2006)

### 1st Region – Regional Office in Belém (ADBEL)

Boulevard Castilhos França, 708 – Centro

Caixa Postal 651

66010-020 Belém (PA)

Regional Delegate: *Maria de Fátima Moraes de Lima*

Jurisdiction: Acre, Amapá, Amazonas, Pará,  
Rondônia and Roraima

### 2nd Region – Regional Office in Fortaleza (ADFOR)

Av. Heráclito Graça, 273 – Centro

Caixa Postal 891

60140-061 Fortaleza (CE)

Regional Delegate: *Luiz Edivam Carvalho*

Jurisdiction: Ceará, Maranhão and Piauí

### 3rd Region – Regional Office in Recife (ADREC)

Rua da Aurora, 1.259 – Santo Amaro

Caixa Postal 1.445

50040-090 Recife (PE)

Regional Delegate: *Cleber Pinto dos Santos*

Jurisdiction: Alagoas, Paraíba,  
Pernambuco and Rio Grande do Norte

### 4th Region – Regional Office in Salvador (ADSAL)

Av. Anita Garibaldi, 1.211 – Ondina

Caixa Postal 44

40176-900 Salvador (BA)

Regional Delegate: *Antônio Carlos Mendes Oliveira*

Jurisdiction: Bahia and Sergipe

### 5th Region – Regional Office in Belo Horizonte (ADBHO)

Av. Álvares Cabral, 1.605 – Santo Agostinho

Caixa Postal 887

30170-001 Belo Horizonte (MG)

Regional Delegate: *Anthero de Moraes Meirelles*

Jurisdiction: Minas Gerais, Goiás and Tocantins

### 6th Region – Regional Office in Rio de Janeiro (ADRJA)

Av. Presidente Vargas, 730 – Centro

Caixa Postal 495

20071-001 Rio de Janeiro (RJ)

Regional Delegate: *Paulo dos Santos*

Jurisdiction: Espírito Santo and Rio de Janeiro

### 7th Region – Regional Office in São Paulo (ADSPA)

Av. Paulista, 1.804 – Bela Vista

Caixa Postal 894

01310-922 São Paulo (SP)

Regional Delegate: *Fernando Roberto Medeiros*

Jurisdiction: São Paulo

**8th Region – Regional Office in Curitiba (ADCUR)**

Rua Marechal Deodoro, 568 – Centro

Caixa Postal 1.408

80010-010 Curitiba (PR)

Regional Delegate: *Salim Cafruni Sobrinho*

Jurisdiction: Paraná, Mato Grosso and  
Mato Grosso do Sul

**9th Region – Regional Office in Porto Alegre (ADPAL)**

Travessa Araújo Ribeiro, 305 – Centro

Caixa Postal 919

90010-010 Porto Alegre (RS)

Regional Delegate: *José Afonso Nedel*

Jurisdiction: Rio Grande do Sul and Santa Catarina

## Acronyms

<b>Basel II</b>	Basel Accord
<b>Abriinq</b>	Brazilian Association of Toy Manufacturers
<b>ACE</b>	Economic Complementation Accord
<b>ACSP</b>	São Paulo Trade Association
<b>Adene</b>	Northeast Development Agency
<b>Aladi</b>	Latin American Integration Association
<b>Anatel</b>	National Telecommunications Agency
<b>Anda</b>	National Association for Fertilizer Dissemination
<b>Aneel</b>	Brazilian Electricity Regulatory Agency
<b>ANP</b>	National Petroleum Agency
<b>Apec</b>	Asia-Pacific Economic Cooperation
<b>Apex-Brasil</b>	Export and Investment Promotion Agency
<b>Bacen</b>	Central Bank of Brazil
<b>BDR</b>	Brazilian Depositary Receipt
<b>BIB</b>	Brazil Investment Bond
<b>BIS</b>	Bank for International Settlements
<b>BIT</b>	Informatics and Telecommunications Goods
<b>BK</b>	Capital Goods
<b>BNDES</b>	National Bank of Economic and Social Development
<b>BoE</b>	Bank of England
<b>BoJ</b>	Bank of Japan
<b>BWI</b>	Bretton Woods Institutions
<b>Caged</b>	General File of Employed and Unemployed Persons
<b>Camex</b>	Foreign Trade Council
<b>CCF</b>	Overdraft Check Issuers File
<b>CCR</b>	Reciprocal Credit and Payment Agreement
<b>CDB</b>	Caribbean Development Bank
<b>CDI</b>	Interfinance Deposit Certificate
<b>CDS</b>	Distribution Centers
<b>Cemla</b>	Centre for Latin American Monetary Studies
<b>Cepal</b>	Economic Commission for Latin America and the Caribbean
<b>CGI</b>	Corporate Governance Index
<b>Cide</b>	Contribution on Intervention in the Economic Domain
<b>CLIA</b>	Logistical and Industrial Customs Center
<b>CMC</b>	Mercosul Common Market Council
<b>CMN</b>	National Monetary Council
<b>CNI</b>	National Confederation of Industry
<b>CNL</b>	Competitive Need Limitations
<b>CNRT</b>	National Labor Relations Council
<b>Cofins</b>	Contribution to Social Security Financing
<b>Conab</b>	National Supply Company
<b>Copom</b>	Monetary Policy Committee
<b>Coremec</b>	Committee on the Regulation and Inspection of Financial, Capital, Insurance, Pension Fund and Capitalization Markets
<b>CPMF</b>	Provisional Tax on Financial Operations

<b>CRC</b>	Central Credit Risk System
<b>CSLL</b>	Social Contribution on Net Corporate Profits
<b>CTA</b>	China Toy Association
<b>CVM</b>	Securities and Exchange Commission
<b>DAX</b>	Deutscher Aktienindex
<b>DI</b>	Import Declaration
<b>Dieese</b>	Interunion Department of Statistics and Socioeconomic Studies
<b>DNIT</b>	National Department of Transportation Infrastructure
<b>DPMFi</b>	Internal Federal Public Securities Debt
<b>DPVAT</b>	Obligatory Insurance for Personal Damages Caused by Automotive Vehicles
<b>DR</b>	Depository Receipts
<b>DSE</b>	Simplified Export Declaration
<b>EC</b>	Commission of the European Communities
<b>EC</b>	Commission of the European Communities
<b>ECB</b>	European Central Bank
<b>EGF</b>	Federal Government Loans
<b>Embi+</b>	Emerging Markets Bond Index Plus
<b>EPE</b>	Energy Research Company
<b>EU</b>	European Union
<b>FAC</b>	Coffee Acquisition Financing
<b>FAT</b>	Worker Support Fund
<b>FCFIP</b>	Funds for Investment in of Participation Investment Fund Quotas
<b>FDI</b>	Foreign Direct Investments
<b>Fecomercio SP</b>	Trade Federation of the State of São Paulo
<b>Fed</b>	Federal Reserve
<b>FGC</b>	Credit Guarantee Fund
<b>FGE</b>	Export Guarantee Fund
<b>FGTS</b>	Employment Compensation Fund
<b>FGV</b>	Getulio Vargas Foundation
<b>FIDC</b>	Receivables-backed Investment Funds
<b>FIEE</b>	Emerging Company Investment Funds
<b>Fies</b>	Higher Education Student Financing Fund
<b>Finame</b>	Special Industrial Financing Agency
<b>Finame-Modernaq</b>	Finame National Industrial and Health Services Modernization Program
<b>Finex</b>	Export Financing Fund
<b>FIP</b>	Participation Investment Fund
<b>FMP-FGTS</b>	Mutual Privatization Funds – FGTS
<b>FMP-FGTS-CL</b>	Mutual Privatization Funds – FGTS – Free Portfolio
<b>FNDE</b>	National Education Development Fund
<b>FNE</b>	Constitutional Fund for the Financing of the Northeast
<b>FNHIS</b>	National Fund for Housing of Social Interest
<b>FOCEM</b>	Mercosul Structural Convergence and Institutional Strengthening Fund
<b>FOMC</b>	Federal Open Market Committee
<b>FSA</b>	Financial Sector Assessment
<b>FSAP</b>	Financial Sector Assessment Program
<b>FSF</b>	Financial Stability Forum
<b>FSSA</b>	Financial System Stability Assessment

<b>FTAA</b>	Free Trade Area of the Americas
<b>FTSE 100</b>	Financial Times Securities Exchange Index
<b>Funcafe</b>	Coffee Economy Defense Fund
<b>Funcex</b>	Foreign Trade Studies Center Foundation
<b>Fundeb</b>	Fund for the Maintenance and Development of Basic Education and Enhancement of Education Professionals
<b>Fundef</b>	Fund for the Maintenance of Primary Education and Teaching Enhancement
<b>GCF</b>	Gross Capital Formation
<b>GDP</b>	Gross Domestic Product
<b>GFCF</b>	Gross Fixed Capital Formation
<b>GFSR</b>	Global Financial Stability Report
<b>GGGD</b>	Gross General Government Debt
<b>GNL</b>	Liquefied Natural Gas
<b>GSP</b>	Generalized System of Preferences
<b>IBGE</b>	Brazilian Institute of Geography and Statistics
<b>Ibovespa</b>	São Paulo Stock Exchange Index/ Bovespa Index
<b>ICC</b>	Consumer Confidence Index
<b>Icea</b>	Current Economic Conditions Index
<b>ICMS</b>	Tax on the Circulation of Merchandise and Services
<b>IEC</b>	Consumer Expectations Index
<b>IFC</b>	International Finance Corporation
<b>IGP-DI</b>	General Price Index
<b>IGP-M</b>	General Price Index – Market
<b>IIF</b>	Future Intentions Index
<b>IIP</b>	International Investment Position
<b>IMF</b>	International Monetary Fund
<b>IMFC</b>	International Monetary and Financial Committee
<b>INC</b>	National Confidence Index
<b>INCC</b>	National Cost of Construction Index
<b>INPC</b>	National Consumer Price Index
<b>INSS</b>	National Institute of Social Security
<b>IOSCO</b>	International Organization of Securities Commissions
<b>IPA-DI</b>	Wholesale Price Index
<b>IPC</b>	Consumer Price Index
<b>IPC</b>	Índice de Precios y Cotizaciones
<b>IPCA</b>	Extended National Consumer Price Index
<b>IPC-Br</b>	Consumer Price Index – Brazil
<b>IPC-Fipe</b>	Consumer Price Index – Institute of Economic Research Foundation
<b>IPI</b>	Industrialized Products Tax
<b>IPVA</b>	Tax on Automotive Vehicle Proprietorship
<b>IRPJ</b>	Corporate Income Tax
<b>IS</b>	Integrated Systems
<b>LEC</b>	Special Trade Credit Line
<b>LFT</b>	Treasury Financing Bills
<b>LNG</b>	Liquefied Natural Gas
<b>LOA</b>	Annual Budget Law
<b>Loas</b>	Social Assistance Law
<b>LPG</b>	Liquefied Petroleum Gas / Liquid Petroleum Gas

<b>LSPA</b>	Systematic Farm Production Survey
<b>LTN</b>	National Treasury Bills
<b>MAPA</b>	Ministry of Agriculture, Livestock and Supply
<b>MDIC</b>	Ministry of Development, Industry and Foreign Trade
<b>Mercosur</b>	Southern Common Market
<b>MME</b>	Ministry of Mines and Energy
<b>Moderagro</b>	Program of Agricultural Modernization and Conservation of Natural Resources
<b>Moderfrota</b>	Program of Modernization of the Farm Tractor Fleet and Like Implements and Harvesters
<b>Modermaq</b>	National Industrial Structure Modernization Program
<b>MP</b>	Provisional Measure
<b>MTE</b>	Ministry of Labor and Employment
<b>MYDFA</b>	Multi-Year Deposit Facility Agreement
<b>Nafta</b>	North American Free Trade Agreement
<b>Nasdaq</b>	National Association of Securities Dealers Automated Quotation
<b>NBC-E</b>	Brazil Central Bank Note – Special Series
<b>NCM</b>	Common Mercosul Nomenclature
<b>NTN-B</b>	National Treasury Notes – Series B
<b>NTN-C</b>	National Treasury Notes – Series C
<b>NTN-D</b>	National Treasury Note – Series D
<b>NTN-F</b>	National Treasury Note – Series F
<b>Nuci</b>	Utilization of Installed Output Capacity
<b>Opec</b>	Organization of Petroleum Exporting Countries
<b>p.p.</b>	Percentage points
<b>p.y.</b>	Per year
<b>PAC</b>	Growth Incentive Program
<b>Paex</b>	Exceptional Installment Payment
<b>PAF</b>	Annual Financing Plan
<b>PAP</b>	Agriculture and Livestock Plan
<b>Pasep</b>	Civil Service Asset Formation Program
<b>PBC</b>	People’s Bank of China
<b>PCS</b>	Personal Consumer Spending
<b>PEA</b>	Overall Labor Force
<b>PED</b>	Employment and Unemployment Survey
<b>PIM-PF</b>	Monthly Industrial Survey – Physical Production
<b>PIS</b>	Social Integration Program
<b>PITCE</b>	Industrial, Technological and Foreign Trade Policy
<b>PMC</b>	Monthly Retail Trade Survey
<b>PME</b>	Monthly Employment Survey
<b>PNMPO</b>	National Targeted Productive Microfinancing Program
<b>POF</b>	Consumer Expenditure Survey
<b>PPI</b>	Pilot Investment Project
<b>Proagro</b>	Farm Activity Guarantee Program
<b>Procapcred</b>	Credit Corporatives Capitalization Program
<b>Procera</b>	Special Program of Credits to Agrarian Reform
<b>Proex</b>	Export Financing Program
<b>Proger Rural</b>	Rural Employment and Income Generation Program

<b>Progex</b>	National Program of Technological Support to Exports
<b>Prolapec</b>	Crop/Livestock Integration Program
<b>Pronaf</b>	National Program for Strengthening Family Farming
<b>Provias</b>	Highway Intervention Program
<b>PSND</b>	Public Sector Net Debt
<b>PSND</b>	Public Sector Net Debt
<b>RAL</b>	Reserve Augmentation Line
<b>RDB</b>	Bank Deposit Receipt
<b>Recap</b>	Special Capital Goods Acquisition System for Exporting Companies
<b>Redesim</b>	National Network for Simplification of Registration and Legalization of Companies and Businesses
<b>Repes</b>	Special Taxation System for the Information Technology Services Export Platform
<b>Reporto</b>	Tax System for Incentives to Port Structure Modernization and Expansion
<b>RGPS</b>	General Social Security System
<b>RMCCI</b>	International Exchange and Capital Market Regulations
<b>RMSP</b>	São Paulo Metropolitan Region
<b>ROSC</b>	Reports on the Observance of Standards and Codes
<b>RTS</b>	Reserve Transfer System
<b>RTSI</b>	Russian Trading System Index
<b>SBPE</b>	Brazilian System of Savings and Loans
<b>SBR</b>	Risk-based Supervision System
<b>SCR</b>	Credit Information System
<b>SDDS</b>	Special Data Dissemination Standard
<b>Seade</b>	State Data Analysis System Foundation
<b>Secex</b>	Foreign Trade Secretariat
<b>Selic</b>	Special System of Clearance and Custody
<b>SFH</b>	Housing Financing System
<b>Simples</b>	Integrated System of Tax and Contribution Payments for Micro and Small Businesses
<b>Simples Nacional</b>	Special Unified Tax and Contribution Collection System to be utilized by micro and small businesses
<b>Sisbov</b>	Operational Norm on Tracking of the Cattle and Buffalo Productive Chain
<b>Siscomex</b>	Integrated Foreign Trade System
<b>SNHIS</b>	National System of Housing of Social Interest
<b>SPC</b>	Credit Protection Service
<b>SRF</b>	Supplemental Reserve Facility
<b>TBF</b>	Basic Financing Rate
<b>TEC</b>	Common External Tariff
<b>TED</b>	Available Electronic Transfer
<b>TIPI</b>	Industrialized Products Tax Table
<b>TJLP</b>	Long-Term Interest Rate
<b>TN</b>	National Treasury
<b>TR</b>	Reference Rate
<b>UN</b>	United Nations
<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>UNSC</b>	United Nations Security Council
<b>USA</b>	United States of America

<b>USTR</b>	United States Trade Representative
<b>WEO</b>	World Economic Outlook
<b>WTO</b>	World Trade Organization
<b>XU100</b>	Istanbul Stock Exchange National 100 Index