Economic-Financial Relations with the International Community

Foreign trade policy

As noted in the previous chapter, introduction of the Growth Incentive Program (PAC), incorporating a variety of measures designed to generate direct and indirect impacts on the export sector, is targeted at enhancing the nation's international market competitiveness. In general, the focal point of these measures is to reduce taxes on investments, particularly in segments of logistical importance, such as ports. These measures are targeted at the infrastructure sector and are of fundamental importance to reducing export costs, while making it possible to continue expanding the volume of exports and imports.

Suspended since July 2006, negotiations on the liberalization of global trade in the World Trade Organization (WTO) framework did not progress in any significant way in 2007, as a consequence of the ongoing impasse between the developing and developed countries. While the latter seek greater freedom in the industrial and service sectors in the developing countries, these nations are seeking tariff cuts on exports of agricultural products, coupled with reductions in the farm subsidies paid by the developed world.

Over the course of 2007, various initiatives were taken with the aim of reinitiating the negotiation process, including the proposal put forward by Pascal Lamy, the WTO Director General, to the representatives of thirty countries during the January Davos Forum, stressing the fact that progress in the bilateral negotiations could make it feasible to recommence negotiations among all WTO members. In April, China and India issued a joint statement in which they demanded that the developed countries respect their need to preserve their subsistence farmers and guarantee food security to almost 2.5 billion people. At the same time, they blamed the USA and European Union for the possible failure of the Doha Round. It should be observed that divergent positions are found even among emerging nations belonging to the G-20. While Brazil and Argentina proposed wide-ranging agricultural liberalization, China and India reject new tariff cuts in their markets.

The G-4 – Brazil, India, USA and UK – countries met in June in Potsdam, Germany, with the objective of getting the Doha Round back on track. The meeting ended two days earlier than scheduled, when Brazil and India decided to withdraw from the negotiations as a result of the impasse in discussions of subsidy cutbacks and tariff reductions. Following that, United States authorities blamed Brazil and India for the lack of progress at the Doha Round and announced elimination of various trade benefits granted to both countries in the framework of the General System of Preferences (GSP). As a result, the new deadline for conclusion of the Doha Round was postponed to the end of 2008.

In the context of the Southern Common Market (Mercosur) integration, discussion of the bloc's asymmetries dominated the agenda during the year. Among the major measures related to this subject, one should emphasize proposals referring to elimination of double charging of the Common External Tariff (TEC) and distribution of customs revenues, as well as the Strategic Plan for Overcoming Asymmetries. This plan has four pillars: asymmetries, productive integration policies, market accessibility and issues of an institutional character. Nonetheless, Brazil and Argentina expressed divergent positions regarding elimination of double charging of the TEC and the timeliness of its implementation. While Brazil defends a position of more rapid adoption of this proposal, Argentina has taken a more cautious approach.

At the 34th Mercosul Summit, held in Uruguay in December, conclusion of agreements on resolving asymmetries and redistributing customs income was postponed to the first half of 2008, together with elimination of double charging of the TEC. Another decision postponed to 2008 involved ratification of Venezuela's definitive entry into the bloc by the Brazilian and Paraguayan parliaments. Also with respect to new members, Argentina blocked Bolivia's full membership in Mercosul without a commitment to compliance with the TEC, the instrument that transforms the bloc into a customs union.

Also with regard to the TEC, at their last meeting in the year, Mercosul member countries decided to postpone the date determined for extinction of their 100-item exception lists in the cases of Paraguay and Uruguay until December 31, 2015. Brazil and Argentina may maintain lists of exceptions with 100 products up to December 31, 2009, when they will drop to 93 items. Starting on February 1, 2010, the list will be reduced to 80 products and then to 50 on August 1, 2010, before being totally eliminated on December 31, 2010.

In the case of the Common System for Informatics and Telecommunications Goods (BIT) and for Capital Goods (BK), the period allotted to the High Level Group to Examine the Consistency and Dispersion of the TEC (Gantec) and submit a proposal for review of the systems was extended to December 2008. Mercosul Common Market Council Decision no. 61, dated December 17, 2007, determined that Brazil and Argentina may maintain exceptions to the BIT until December 31, 2008, while Paraguay and Uruguay may apply tariffs of 0% or 2% through December 31, 2015.

During the aforementioned summit, Brazil announced creation of BNDES offices in the Uruguayan capital. These offices will be used to provide support to operations in Latin America, and will be the bank's first international office since it terminated the activities of its Washington office, which had opened in the 1950s and operated continuously for more than 30 years.

In December, in Buenos Aires, the presidents of Brazil, Argentina, Venezuela, Bolivia, Ecuador, Uruguay and Paraguay signed the act creating the *Banco do Sul*, reflecting their political commitment to its implementation. The objective of the bank is to finance development projects in the region and become an alternative to existent multilateral financial institutions. To do this, initial capital is forecast at US$7 billion, distributed in equal quotas among the seven participating countries.

Also in 2007, the Free Trade Treaty between Mercosul and Israel was formalized. This treaty, the first of its kind to be signed with a country not located in Latin America, represented the end of long years of external negotiations with no significant progress. This is evident in the fact that the Trade Preference Agreement signed with India in 2004 has not yet gone into effect due to the lack of parliamentary ratification.

With regard to Brazil-Argentina negotiations, in the month of February the Brazilian government announced that it would not renew the restrictive agreements involving footwear and appliances in effect in the period from 2004 to 2006, considering that the restrictions have already achieved their objectives of expanding the output of Argentine industry and raising investments in those sectors.

Brazilian wheat imports from Argentina represented another item of importance on the bilateral agenda. Representatives of the Brazilian business community and government requested that the Argentine government standardize export tariffs at 10%. Currently, these tariffs stand at 10% for flour, 10% for unrefined wheat and 20% for wheat. Brazil took the position that the difference between tariffs burdened domestic production, since it was more advantageous to import Argentine flour than to purchase wheat to be processed in the country. It should be stressed that Brazil produces only about 40% of the wheat it consumes. In this scenario, acting through the Brazilian Association of the Wheat Industry (Abitrigo), business representatives from the sector are demanding a reduction in tariffs on imports of the product from countries that do not participate in Mercosul.

As far as Brazilian-Uruguayan trade relations are concerned, the automotive agreement was extended to June 30, 2008. This agreement determines annual export quotas of 6.5 thousand Brazilian automobiles and light commercial vehicles to the Uruguayan market with no import tax, and twenty thousand Uruguayan automobiles and light commercial vehicles to the Brazilian market, excluding armored vehicles. This agreement represented an important step in consolidating Mercosul Automotive Policy (PAM).

Foreign Trade Chamber (Camex) Resolution no. 38, dated June 9, 2007 and published on September 28, disciplined imports of remolded tires from Mercosul and defined quotas at 250,000 units per year with 130,000 from Uruguay and 120,000 from Paraguay. At the same time, a maximum quota of 2,000 units per year of remolded tires for buses and trucks was approved and should be divided equally between Uruguay and Paraguay. This resolution prohibited imports of remolded tires for motorcycles and three wheeled vehicles.

Moreover, Brazilian trade policy in 2007 was characterized by adoption of emergency measures focused on strengthening industry by stimulating exports and restructuring the productive sector. These measures were announced on June 12 and were targeted at strengthening and enhancing the competitiveness of the manufacturing sector in the following specific areas: leather goods, footwear, textiles and apparel, ornamental stones, furniture, electronic appliances and automobiles.

Following its approval by Mercosul partners, Camex Resolution no. 40, dated September 28, 2007, raised the Import Tax rates of the TEC on footwear, fabrics and apparel to respective levels of 35%, 26% and 35%. Aside from this, Law no. 11,529, dated October 22, 2007, later regulated by Decree no. 6,252, dated November 13, 2007, authorized equalization of interest rates and granting of interest bonuses for payments made on the due date in the financing and the credit operations of companies in these sectors. The ceiling was set at R$3 billion, including R$2 billion in resources from BNDES and R$1 billion from the FAT. As regards measures taken to reduce taxes, the period of time for appropriating PIS/Cofins credits on investments was shortened, permitting immediate appropriation in acquisitions of capital goods for the sectors of textiles, footwear, furniture, electronic appliances and automotive vehicles. In the same context, it should be highlighted the sectoral expansion of the Special Capital Goods Acquisition System for Exporting Companies (Recap), with reduction from 80% to 60% of the minimum percentage of exports that generates the right to suspension of PIS/Cofins on acquisitions of inputs for companies in the sectors mentioned.

On June 14, the Naval Industry Chamber was created and charged with reorganizing the sector, particularly as regards long-term planning. Studies carried out by various workgroups resulted in suggestions of measures for that sector. These were channeled to the government organizations charged with elaborating the new phase of industrial policy, which is expected to include broad sectoral initiatives based on measures taken jointly by BNDES, government ministries and the private sector.

Provisional Measure no. 412, dated December 31, 2007 extended the Tax System for Incentives to Port Structure Modernization and Expansion (Reporto) until December 31, 2010. This System had originally been instituted by Law no. 11,033, dated December 21, 2004. In purchases of machinery and equipment for ports, Reporto, which is a federal government program, suspends charging of the IPI, PIS/Pasep, Cofins and the Import Tax (II), when national industry does not produce goods similar to those being imported.

BNDES-Exim disbursements totaled US$4.2 billion in the year, a reduction of 34.3% compared to the previous year. This falloff was registered in all of the various modalities of support to export operations. In the post-shipment modality, resources totaled US$697.5 million, representing an annual decline of 62.6%, while the resources made available in the pre-shipment modality (traditional, special and agile), involving financing for production of goods to be exported, reached US$3.5 billion, of which 92.7% were concentrated in the traditional segment, reflecting a falloff of 22.6% using the same basis of comparison.

Decree no. 6,322, dated December 21, 2007, expanded the activities of BNDES, authorizing the institution, as a member of the national financial system, to carry out any financial or capital market operations regulated by CMN rules and guidelines. Aside from this, the institution may contract technical studies and provide technical and financial support, including on a non-reimbursable basis, for the structuring of projects that foster the economic and social development of the country or its integration into Latin America.

As regards the guidelines and implementation of the PAC, BNDES reduced spreads on operations in the infrastructure sector, thus encouraging new investments. Other sectors that benefited from this measure include production and distribution of gas, railways, ports, airports, highways, urban sanitation and transportation.

Decree no. 6,041, dated February 8, 2007, implemented government policy regarding the biotechnology sector. This policy proposes strategic measures that encompass investments, infrastructure and regulatory frameworks, reflecting an effort to create an environment conducive to the sector's development, enhancing its competitiveness and the country's participation in world trade. One should stress that BNDES is the major financing agent of companies operating in the area of biotechnology, since investments in this sector necessarily take a long time to reach maturity.

During the year, BNDES announced that it would double the budget of the Footwear Sector Financial Support Program to a total volume of US$240 million, while extending the program to the end of 2007. The objective of the program was to increase the competitiveness of the sector's foreign sales. The bank was also responsible for injection of US$200 million into the Andean Development Corporation (CAF), the financial arm of the Andean Community. From the point of view of the Brazilian government, the injection of capital into the CAF increases the country's presence in the process of regional development, while also strengthening the institution itself.

In the year under analysis, the value of Export Financing Program (Proex) operations increased 10.2% over the previous year, closing with US$4,414.1 million, of which US$374.7 million referred to the financing modality and US$4,039.4 million to interest rate equalization. The financing modality accounted for 8.5% of exported value and reflected a reduction of 14.8% compared to the previous year, when the total reached US$439.7 million. In much the same way, disbursements showed a reduction from US$382.9 million to US$331.6 million in the period under analysis. Despite these cutbacks, the number of operations shifted from 1,391 to 1,660, as a result of growth from 219 to 435 in the operations of micro-businesses and from 335 to 358 in the number of exporters. The participation of micro and medium-sized businesses in exported value increased from 20% to 26%, while that of small businesses remained constant at 10% and the participation of large-scale companies dropped from 70% to 64%.

In descending order, the major economic sectors that made use of Proex financing in 2007 were services, 40%; machinery and equipment, 15%; agribusiness, 14%; transportation, 14%; and textiles, leather and footwear, 9%.

Exports in the equalization modality totaled US$4,039.4 million in 2007 compared to US$3,566.9 million in the previous year. Issuances of National Treasury Notes – Series I (NTN-I), used as backing for interest rate equalization operations, added up to US$183.8 million, against US$191.8 million in 2006. In the year, 2,126 operations were carried out by 35 exporters, as compared to 1,716 operations in the preceding year, carried by 32 companies. It is important to stress that 71% of exports involved the transportation sector, including Embraer external sales, followed by machinery and equipment with 25%, and services with 4%. Just as occurred in previous years, there was a strong concentration of operations among large-scale companies, reaching 74% of the total and representing 77% of the value of exports through this modality.

Also with regard to Proex, the Aviation Sector Understanding on Export Credits for Civilian Aircraft between Brazil and the member countries of the Organisation for Economic Co-operation and Development (OECD) was signed on July 30 in Rio de Janeiro, following three years of negotiations. The objective of the agreement is to find a balance among the competitive conditions of the world's largest manufacturers of commercial aircrafts.

Camex Resolution no. 35, dated August 22, 2007, defined the guidelines for utilization of Proex, while Provisional Measure no. 363, dated April 18, 2007, converted into Law no.11,499, dated June 28, 2007, defined the authority of Camex and reaffirmed that of the CMN in this area, at the same time in which it determined that the National Treasury could agree to conditions accepted by international practice as applied to countries, projects or sectors with limitations on their access to market financing. According to the terms of Resolution no. 3,512, dated November 30, 2007, the CMN determined that interest rates on Proex equalization or financing operations may not be less than 2% per year. Camex was given authority to dispense with guarantees by the beneficiaries of the operation.

First observed as of 2004, the tendency toward growth in the positive balance of foreign trade operations through the Reciprocal Credit and Payment Agreement (CCR) was maintained, particularly in terms of operations with Venezuela. The cumulative balance in 2007 closed in a creditor position of US$2.9 billion, based on US$3 billion in exports and US$122.5 million in imports, corresponding to an increase of 40.8% compared to 2006. As occurred in previous years, Venezuela was Brazil's major partner in the framework of the agreement, accounting for 85.7% of Brazilian foreign sales. Argentina was the second most important destination for Brazilian exports backed by the CCR, with 3.6%, followed by Ecuador, 3.2%. Brazilian imports through the agreement increased 78.8% in the year and originated mainly in Chile, Argentina and Uruguay, with 98.3% of total acquisitions. Just as in the previous year, Chile was the only country with which Brazil registered a negative balance in the CCR framework.

In 2007, government measures aimed at stimulating exports were maintained. This effort was led by the Export Promotion Agency of Brazil (Apex-Brasil) and resulted in the expansion and diversification of Brazilian foreign sales. The trade promotion effort can be measured by growth in the exports of companies participating in projects developed by the agency, together with different entities from the industrial sector. Growth in these operations has surpassed expansion of overall Brazilian exports. As regards trade promotion incentives, implementation of the Export Promotion Remittance Authorization System (Sisprom) deserves mention. This is a tool that aids in the granting of benefits to members of the business community carrying out trade promotion activities involving their products through fairs and exhibits abroad.

Also in the context of trade promotion, Apex-Brazil inaugurated the fifth Distribution Center in Poland. This center consists of a space in which Brazilian businesspeople from various sectors can store their merchandise, participate in negotiations with foreign buyers, and maintain offices, all within the strategy of internationalizing Brazilian export companies. At the same time, Apex coordinated the participation of Brazilian companies in important international fairs, while the agency also provided support to the organization of trade missions to Asian and Arab countries, Portugal and Venezuela.

Another line of action, focused on creating an environment conducive to development of partnerships between Brazil and other countries, consists of bilateral discussion committees composed of company directors from different sectors. Following the example of the Joint Brazil-United Kingdom Trade and Economic Committee, 2007 witnessed creation of the Brazil-United States and Brazil-India committees, composed of private and public sector representatives of the countries involved. These forums, which met twice a year on an alternating basis, were coordinated, on the Brazilian side, by the Ministry of Development, Industry and Foreign Trade (MDIC). Trade diplomacy has played an important role in disseminating Brazilian biofuel production technology, particularly involving alcohol, as an alternative aimed at reducing dependence on fossil fuels in the energy matrix of different countries. In this context, several technical cooperation memoranda were formalized on this theme with a diversity of countries.

Camex Resolution no. 70, dated December 11, 2007, was designed to facilitate, simplify and reduce bureaucracy in the Brazilian foreign trade structure, determining a deadline of 80 days for implementation of measures targeted to this objective. According to Camex, there are more than 4,700 multiple permissions required in import operations and 378 in exports or, in other words, products are subjected to a multiplicity of measures implemented by a variety of different government organizations. This is a situation that must be eliminated through adoption of a system of harmonized procedures aimed at avoiding possible losses to Brazilian companies.

In terms of trade defense, it is important to state that greater velocity has been implemented in the process of analyzing cases involving damage to Brazilian industry as a result of dumping, with increased application of provisional anti-dumping rights for a period of up to six months. According to WTO rules, application of such measures can occur 60 days after the start of investigation of damages to domestic industry, a measure that would leave Brazilian industry in a less vulnerable position. The investigation process for application of definitive anti-dumping measures for periods of up to five years can take from eight to twelve months.

Camex applied six provisional anti-dumping rights, of which four were transformed into definitive rights. Aside from these measures, ten definitive rights were also determined, most of them questioning imports from China. Furthermore, one should emphasize approval of a price commitment in support of imports of semi-rigid cardboard from Chile and, effective as of August 17, suspension of all import licenses involving products from the Mattel company, with the objective of hampering entry of defective toys, when such items are cited in the company's world recall list. It was decided that the suspension would only be revoked after the manufacturer had satisfied all of the technical rules defined by government entities, followed by inspection by the National Institute of Metrology and Industrial Quality (Inmetro).

At the same time, mention should be made of the fact that Ukraine was recognized as having a market economy. The practical consequence of this recognition is the need for Brazil to utilize cost and price data from the Ukrainian economy to determine dumping margins, instead of basing these analyses on information from similar third-party markets.

In terms of health measures, emphasis should be given to negotiations involving Brazil's compliance with the health demands of the European bloc required for the country's beef exports to continue entering that market. In the month of March, Brazil received a technical mission from the EU that detected deficiencies in some procedures of this productive chain. As a result, correction of these deficiencies by the end of the year was required, subject to the European Commission's adoption of restrictions on purchases of Brazilian meat. In November, the country received another technical mission from the European bloc with the objective of verifying implementation of improvements in the system of cattle tracking, animal transit control, vaccination, certification, legislation regarding areas hit by foot and mouth disease and control and diagnoses of various diseases. The Brazilian government ensured compliance with four demands: implementation of new electronic certificates printed by the Brazilian Mint for meat exported to the EU; approval of new legislation on foot and mouth disease and its control; availability of a system capable of diagnosing the disease within up to one week; and improvements in the control of animal transportation procedures.

Camex Resolution no. 12, dated April 25, 2007, authorized payment of Brazilian exports in real. Aside from reducing the costs of exchange operations, this measure was aimed at encouraging regional integration, since trade negotiations can be formalized in local currencies. The first country with which Brazil will carry out this type of negotiation will be Argentina and the process will be known as the Local Currency Payments System (SML).

On September 27, with the unrestricted support of 30 member countries of the World Industrial Property Organization (WIPO), Brazil's candidacy to the position of International Authority for Preliminary Research and Examination of Patents was approved, thus making the country the 13th nation to perform this function, and the first in Latin America. Brazil's request to utilize Portuguese as a language for international patent deposits and publications was also approved, making it unnecessary to translate patent requests to a foreign language, thus generating savings and enhanced facility in making international patent deposits through the National Institute of Intellectual Property.

Exchange policy

Over the course of 2007, the policy of reducing public sector exchange exposure and rebuilding reserves, which was adopted in 2003, was maintained. Continued application of these measures has resulted in greater solidification of the country's external accounts, while increasing the economy's resistance to adverse changes on the external scenario, as demonstrated by the somewhat marginal impact on the Brazilian economy, generated by the turbulence that hit international markets as a result of the subprime market crisis in the USA.

Net inflows of US$87.5 billion to the domestic exchange market in 2007 created conditions for the Central Bank to increase exchange purchases on the spot market, with settlements of US$78.6 billion, including US$57 billion in the first half of the year. It was only in September, at the worst moment of international financial market turbulence, that spot market exchange acquisitions by the monetary authority were not registered. As a result, the foreign reserve position more than doubled in the year, moving from US$85.8 billion at the end of 2006 to US$180.3 billion in 2007. It is important to recall that, just as in previous years, continued Central Bank application of this strategy obeyed changing market conditions, considering that the final objective was not to increase exchange market volatility, nor assume a commitment to a specific exchange rate level.

In the same way, the Central Bank carried out reverse exchange swap auctions, in which it assumed an active position in exchange variation and a passive position in domestic interest rates, with the primary objective of rolling over maturities. The greatest volume of these operations was concentrated from April 17 to June 4, when eleven auctions were held in a total amount of US$11 billion. One should stress that as of the end of April, the Central Bank stopped anticipating the date of these auctions by one day. In the year as a whole, reverse exchange swap auctions totaled US$24.5 billion.

At the same time, the National Treasury continued its strategy of acquiring resources on the exchange market in order to service the external debt and carry out sovereign bond buyback operations, thus strengthening the temporal profile of the debt structure. As regards National Treasury market purchases, US$14 billion were settled in the year, of which US$7.7 billion in the first six months.

In June, the Central Bank issued three circulars that altered rules and procedures regarding exposure of financial institutions to exchange risk. Circular no. 3,352, dated June 8, 2007, returned the exchange exposure limit from 60% to 30% of base capital. Aside from this, Circular no. 3,353, issued on the same date, raised capital requirements (factor “F”) on exchange exposure from 50% to 100%, effective as of July 2. Circular no. 3,351, dated September 6, 2007, determined that, as of July 2, specific treatment would be given to exposures offset among institutions belonging to the same conglomerate in the country and abroad. Prior to this rule, contrary exposures (long and short) in the country and abroad by institutions belonging to the same conglomerate offset one another, and did not result in exchange exposure subject to the limits and requirements demanded, as already mentioned above. With this new circular, the amount internationally offset by the conglomerate was added to the net exchange exposure of the conglomerate in the country. By reducing the risk assumed by financial institutions, these measures forced a reduction in short positions in the dollar futures market.

Among other factors, improvements in macroeconomic fundamentals, the record international reserve position, increased trade flows, record exchange flows into the country, improvements in sustainability indicators and elimination of internal and external public debt exposure to exchange rate variations created the conditions required for the major international risk rating agencies – Standard & Poor’s, Fitch and Moody’s – to upgrade their sovereign risk ratings, placing the country in a position just one level removed from investment grade. One should mention that upgrading of Moody’s rating occurred in August, at a moment of intense international financial market volatility. This fact clearly demonstrates the strength of Brazilian economic fundamentals. In the press release issued by Moody's, that institution affirmed that the new rating reflected improvements in the profile of overall government indebtedness, anticipation of more rapid reductions in debt indicators in the near future and expected continuation of the process of strengthening external sustainability indicators. At the same time, the institution emphasized that accumulation of international reserves had created a financial cushion that would serve well as protection against external shocks.

For the fifth consecutive year, the dollar depreciated against the real and closed the year at R$1.7713, accumulating nominal devaluation of 17.15% based on the Ptax-sale rate, compared to last year's closing. Effective real exchange rate indices, deflated by the IPA-DI and IPCA, also showed appreciation of the Brazilian currency against the United States dollar, with respective rates of 12.6% and 12.8%. As regards the spread measured by the Embi+, calculated by J.P. Morgan, final 2007 figures showed a level of 221 points, somewhat higher than the December 2006 mark of 192 points. In the year under consideration, the risk indicator for Brazil showed a downward tendency through the end of the first half of the year, dropping to a minimum level of 138 points on June 18. In the month of July, starting with the turbulence registered on the United States mortgage loan market, this trend reversed course, registering a maximum value of 254 points on November 26.

CMN Resolution no. 3,447, dated March 5, 2007, regulated foreign capital registration at the Central Bank of Brazil as dealt with in Law no. 11,371, dated June 28, 2006. This measure made it possible to normalize direct foreign investments that had not yet been registered at the Central Bank since they were not covered by the regulations then in effect. This capital should have been registered at the Central Bank, since it was already subject to taxation; nonetheless, since it did not meet the formal conditions for such registration – including the absence of effective inflows of foreign currency to the country in the manner required in article 1 of Law no. 4,131, dated September 3, 1962 – registration had not taken place. The only capital that can be registered is that included in the accounting records of the Brazilian corporate entity receiving the foreign capital, as determined in current legislation and regulations. Aside from this, the Central Bank was authorized to publish the data included in the registration. Operational procedures for registration were defined by Circular no. 3,344, dated March 7, 2007, with the following deadlines: up to June 30, 2007, capital existent on December 31, 2005; up to the final business day of the calendar year subsequent to the annual balance sheet in which the legal entity is obligated to register the capital, capital registered in accounting as of and including 2006.

In order to improve prudential regulations as a result of Brazil's adoption of the Basel Accord II, the CMN issued Resolutions no. 3,488 and no. 3,490, both dated August 29, 2007, dealing respectively with the limit on total exposure in gold, foreign currency and exposures subject to exchange rate variations, as well as calculation of the PRE. In September, the Central Bank issued nine circulars numbered from 3,360 to 3,368, for the purpose of presenting detailed criteria and formulas for calculating capital requirements related to exposures weighted by the risk factor and to market factors, including interest rates, exchange rates and interest coupons and foreign currencies. All these Circulars are to go into effect as of July 1, 2008, with the exception of Circular no. 3,367, dated September 12, 2007, which dealt with calculation of exchange exposure and went into effect on the date of publication.

This Circular consolidated current regulations and introduced improvements regarding convertibility risk in operations carried out abroad. In calculating the volume of exchange exposure, three parts were considered which, after being added together, are multiplied by an “F” factor, currently set at 1. Exchange exposure was maintained at 30% of PRE. These prudential measures in the exchange sector, coupled with improvements in risk management and review of capital requirement rules applicable to financial institutions, resulted in a reduction in the exchange exposure of those institutions and thereby aided in avoiding contagion of the National Financial System as a result of rapid deterioration of the global economy as of August.

The CMN approved Resolution no. 3,525, dated December 20, 2007, with the objective of regulating article 18 of Law no. 126, dated January 15, 2007, which opened the Brazilian reinsurance market. This measure disciplines the opening and operation of foreign currency accounts in the country by insurance companies, including export credits, local reinsurance institutions, reinsurance companies admitted to the country and insurance brokers. The rule refers only to operation of accounts reserved for receiving and paying premiums; indemnities; credit recovery and other amounts foreseen in insurance, reinsurance, retro-assignments and coinsurance contracts and receiving deposits involving resources for maintaining minimum balances in such accounts; and earnings on investments of existent balances. With the new regulations, specific provisions of Resolution no. 2,532, dated August 14, 1988, and all of Resolution no. 2,694, dated February 24, 2000, were revoked.

Exchange operations

The result of exchange operations carried out on the market was a surplus of US$87.5 billion in 2007, the highest amount ever registered, compared to US$37.3 billion in 2006. This result made it possible for the National Treasury to continue implementing its policy of obtaining market resources for servicing the external debt and maintaining the program of sovereign bond buybacks, at the same time in which the Central Bank increased its acquisitions of exchange on the market.

This very significant result was a consequence of the positive performance of the exchange trade balance, as well as of the reversal of successive deficits in the financial segment since 2001. Net inflows in the trade segment reached US$76.7 billion, against

US$57.6 billion in 2006, the best result of the series. These figures represent an increase of 28% under exports and 24.5% under imports. The surplus in the financial segment totaled US$10.7 billion, compared to a deficit of US$20.3 billion in the previous years, for growth of 78.3% in foreign currency purchases and 56.5% in sales.

Table 5.1 – Foreign exchange operations

US$ million

Period	Operations with clients in Brazil							Operations with banks abroad	Balance
	Commercial			Financial			Balance		
	Exports	Imports	Balance	Purchases	Sales	Balance	(C)	(net)[1/]	(E)
			(A)			(B)	= (A)+(B)	(D)	= (C) + (D)
2004	93 466	56 794	36 672	84 622	109 369	-24 747	11 925	-5 563	6 362
2005	123 021	71 248	51 772	117 761	153 216	-35 455	16 317	-492	15 825
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
2007									
Jan	17 335	7 272	10 063	17 193	23 486	-6 293	3 770	0	3 770
Fev	12 246	7 547	4 699	19 664	17 386	2 278	6 977	0	6 977
Mar	13 946	8 070	5 876	26 333	25 561	772	6 647	0	6 647
Abr	17 081	7 254	9 827	24 043	23 143	900	10 728	0	10 728
Mai	13 988	7 993	5 995	27 855	26 906	949	6 944	0	6 944
Jun	17 572	8 116	9 456	36 405	29 299	7 105	16 561	0	16 561
Jul	15 025	9 531	5 494	33 779	27 684	6 095	11 588	0	11 588
Ago	17 224	10 343	6 880	28 518	28 557	-39	6 841	0	6 841
Set	12 521	10 540	1 980	23 688	25 671	-1 983	-3	0	-3
Out	16 569	10 674	5 895	36 909	36 082	828	6 722	0	6 722
Nov	17 232	9 927	7 304	32 308	34 331	-2 023	5 281	0	5 281
Dez	14 025	10 749	3 276	41 588	39 467	2 121	5 397	0	5 397
Ano	184 764	108 018	76 746	348 281	337 573	10 708	87 454	0	87 454

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

Balance of payments

The deterioration registered in the world economic scenario toward the end of 2007 as a result of worsening expectations regarding United States economic performance and rising international financial market volatility, produced a limited impact on the Brazilian economy. This was a clear demonstration of the significance of the macroeconomic adjustment process that marked recent years, particularly the strengthening of the country's external situation in coping with international market turbulence.

During all of 2007, the performance of external sustainability indicators reflected a favorable situation in Brazilian foreign accounts. The positive evolution of risk premiums, when viewed in the international context, remained consistent throughout the year, while Brazil risk closed mid-June at 138 points, the lowest level since 1994. In the second half of the year, with the outbreak of international financial volatility generated by the subprime market crisis, this risk measurement rose to a maximum level of 254 points at the end of November, before dropping back and closing the year at 221 points, consolidating the outlook for obtaining an investment grade rating.

The favorable results obtained made it possible to adopt consistent policies in managing the country's net external liabilities. In this case, the creditor position has been influenced as much by sharp growth in international reserves as by reductions in outstanding external debt. Accumulation of international reserves and improvements in the debt profile have contributed to a steady process of strengthening the Brazilian balance of payments and, consequently, enhancing the resistance of the nation's economy to external shocks.

It is important to stress that this increased resistance – and not the net financial position in relation to the international community, which will tend to change over time – is the fundamental objective of measures taken by the Central Bank in the external sector of the economy.

The balance of payments registered an overall surplus for the seventh consecutive year, setting an annual record of US$87.5 billion, including incorporation of excess external financing, defined as the sum total of the result in current account and net direct foreign investment flows, totaling US$36 billion in the year, compared to US$32.5 billion in 2006.

Table 5.2 – Balance of payments

US$ million

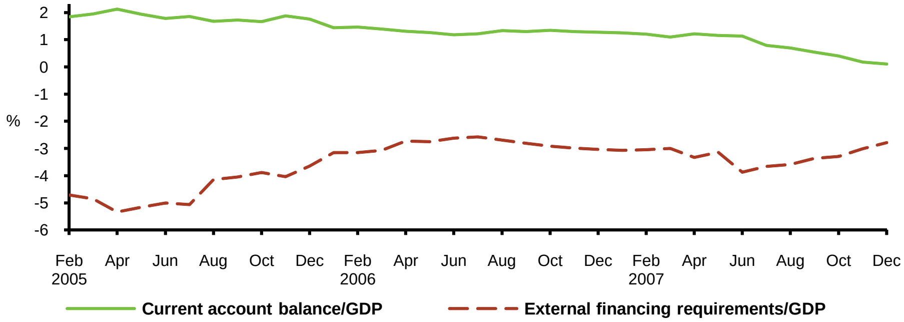
Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Trade balance – FOB	19 533	26 923	46 457	20 575	19 453	40 028
Exports	61 057	76 751	137 807	73 214	87 435	160 649
Imports	41 524	49 827	91 351	52 639	67 982	120 621
Services	-4 197	-5 443	-9 640	-6 019	-7 336	-13 355
Credit	9 147	10 329	19 476	11 065	12 830	23 895
Debit	13 344	15 773	29 116	17 083	20 166	37 250
Income	-14 599	-12 881	-27 480	-14 062	-15 179	-29 242
Credit	3 623	2 839	6 462	5 002	6 491	11 493
Debit	18 222	15 720	33 942	19 064	21 670	40 734
Current unilateral transfers (net)	2 036	2 270	4 306	1 944	2 085	4 029
Credit	2 279	2 568	4 847	2 358	2 613	4 972
Debit	-243	-298	-541	-415	-528	-943
Current account	2 773	10 869	13 643	2 438	-977	1 461
Capital and financial account	5 814	10 484	16 299	60 662	28 493	89 155
Capital account[1/]	430	439	869	342	414	756
Financial account	5 385	10 045	15 430	60 321	28 078	88 399
Direct investment (net)	2 879	-12 259	-9 380	24 278	3 240	27 518
Abroad	-4 502	-23 700	-28 202	3 426	-10 493	-7 067
Equity capital	-4 525	-18 889	-23 413	-4 620	-5 471	-10 091
Intercompany loans	23	-4 812	-4 789	8 046	-5 022	3 025
In the reporting country	7 381	11 441	18 822	20 852	13 733	34 585
Equity capital	5 405	9 968	15 373	15 168	10 907	26 074
Intercompany loans	1 976	1 473	3 450	5 684	2 826	8 510
Portfolio investments	-694	9 775	9 081	24 128	24 263	48 390
Assets	1 034	-1 029	6	-52	338	286
Equity securities	-387	-529	-915	-686	-727	-1 413
Debt securities	1 421	-500	921	634	1 065	1 699
Liabilities	-1 728	10 804	9 076	24 179	23 925	48 104
Equity securities	4 141	3 575	7 716	7 584	18 634	26 217
Debt securities	-5 869	7 229	1 360	16 595	5 291	21 887
Financial derivatives	46	-5	41	-248	-462	-710
Assets	270	212	482	88	0	88
Liabilities	-224	-217	-441	-336	-463	-799
Other investments[2/]	3 154	12 534	15 688	12 163	1 038	13 201
Assets	-3 929	-4 486	-8 416	-19 330	607	-18 723
Liabilities	7 083	17 021	24 104	31 493	431	31 923
Errors and omissions	-428	1 055	628	-1 489	-1 642	-3 131
Overall balance	8 160	22 409	30 569	61 610	25 874	87 484
Memo:						
Current account/GDP (%)	1	2	1	0	-0	0
Medium and long term amortizations[3/]	26 300	17 782	44 082	22 789	14 797	37 586

1/ Includes migrants' transfers.

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

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

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



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

Balance of trade

In 2007, the trade balance surplus totaled US$40 billion, against US$46.5 billion in the previous year, the seventh consecutive positive result. The 13.8% reduction in the annual surplus interrupted a series of four consecutive annual records since 2003 and was consequent upon the sharp upward movement under imports led by the more intense domestic economic activity. As a whole, imports totaled US$120.6 billion in the year, up 32% over 2006, when growth came to 24.1%. Foreign sales increased 16.6% in 2007, a level quite similar to that of the previous year, posting a total of US$160.6 billion.

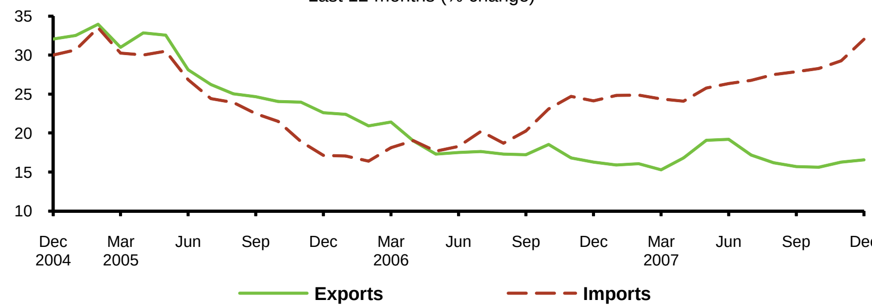
Table 5.3 – Trade balance – FOB

US$ million

Year	Exports	Imports	Balance	Trade flow
2006	137 807	91 351	46 457	229 158
2007	160 649	120 621	40 028	281 270
% change	16.6	32.0	-13.8	22.7

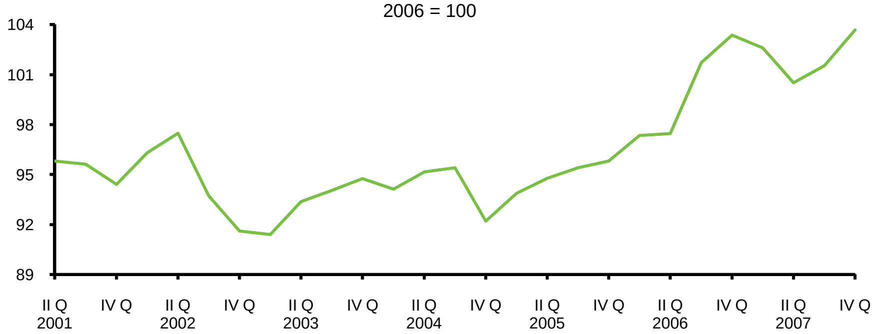
Source: MDIC/Secex

Graph 5.2
Exports and imports – FOB
Last 12 months (% change)[1/]



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

Graph 5.3
Terms of trade index
2006 = 100



Source: Funcex

Evolution of the terms of trade over the course of 2007, particularly as regards the acceleration observed in the second half of the year, represented a factor of importance to neutralizing the impact of the rising volume of imports on the overall trade balance. After a period of uninterrupted growth since the fourth quarter of 2004, the indicator dropped in the first two quarters of 2007 and closed the year at the level that marked the end of 2006.

Repeating the pattern of recent years, performance of the export sector resulted primarily from 10.5% growth in the price index, which had already risen 12.5% in the preceding year. The volume index rose 5.5%, against 3.3% in the previous year.

Table 5.4 – Exports price and volume indices

Change from the previous year (%)

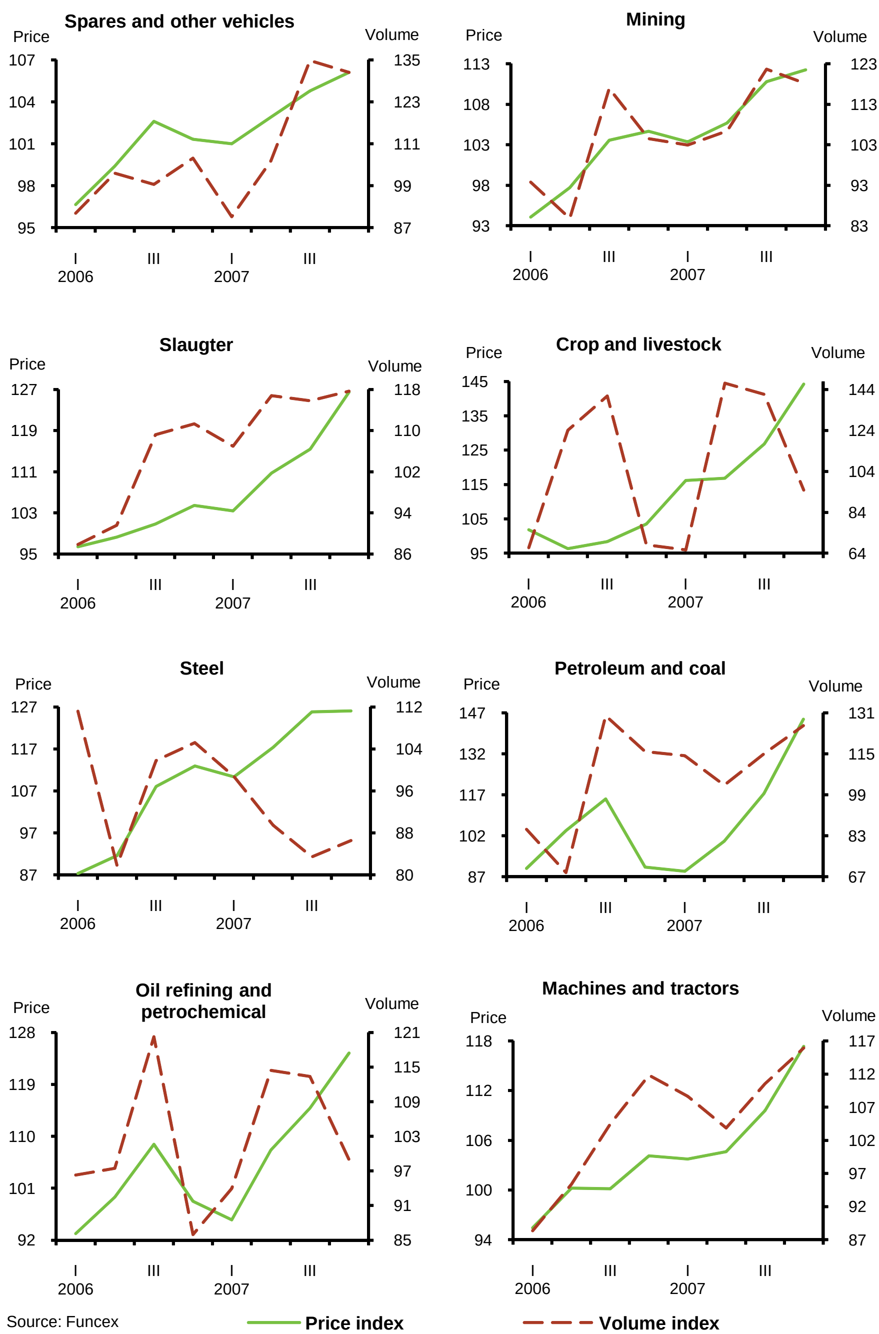
Itemization	2006		2007	
	Price	Volume	Price	Volume
Total	12,5	3,3	10,5	5,5
Primary products	9,4	6,1	14,5	11,8
Semimanufactured goods	18,1	3,5	10,9	0,7
Manufactured goods	12,4	2,2	8,4	3,2

Source: Funcex

A breakdown of external sales by aggregate factor shows across-the-board growth in price indices. The prices of basic products, which had increased at a more modest pace in 2006, rose 14.5%, a rate compatible with the level of world demand for the major agricultural commodities. Price indices for the categories of semimanufactured and manufactured goods rose 10.9% and 8.4%, respectively, corresponding to respective declines of 7.2 p.p. and 4 p.p.

To a great extent, the evolution of basic prices reflected upward movement under soybeans, chicken meat, oil and corn. The reduction in growth under semimanufactured products reflected a sharp decline under the most important price in the category, raw

Graph 5.4
Quarterly price indices and volume of Brazilian exports
2006 = 100



Source: Funcex

sugar. The impact was partially offset by significant increases incorporated by the prices of metallic commodities, such as iron alloys and semimanufactured iron or steel products, cellulose, soybean oil and leather and hides. In this same sense, deceleration in the prices of manufactured products reflected accentuated falloffs in the prices of such items as refined sugar and ethyl alcohol, while, moving in the opposite direction, prices rose under frozen orange juice, rolled iron or steel, transmission and reception equipment and fuel oils.

The increase in the annual growth of the total volume index reflected sharper growth rates in the categories of basic and manufactured goods, while the volume of semimanufactured products exported increased 0.7%, against 3.5% in 2006.

The performance of the exported volume of basic items reflected across-the-board expansion in foreign sales of the major items included in this category, with the exception of soybeans. Particular mention should be made of corn, oil, iron ore and chicken meat. Rapid growth in the volume of manufactured exports reflected the more intense impact of increased sales of aircraft, gasoline, refined sugar, orange juice and tractors, compared to the effect of volume declines under transmission and reception apparatuses, rolled iron or steel and fuel oils. The modest result under exported volume of semimanufactured products reflected a drop in the volume of iron or steel manufactured goods, leathers and hides, raw sugar, aluminum and rubber, while sales of copper cathodes, cellulose and nonmonetary gold increased.

The eight major export sectors showed annual growth in prices in 2007. The highest rate occurred in the crop/livestock sector, with 26%, followed by steel, 19.9%; animal slaughters, 14%; oil and coal, 12.8%; oil refining, 10.6%; machines and tractors, 8.8%; mineral products, 8%; and parts and other vehicles, 3.7%.

Table 5.5 – Exports price and volume indices

Change from the previous year (%)

Itemization	2006		2007	
	Price	Volume	Price	Volume
Total	6,9	16,1	8,2	22,0
Capital goods	0,8	24,0	2,9	32,1
Intermediate goods	3,3	15,7	8,5	19,6
Durable consumer goods	5,4	73,5	0,4	50,6
Nondurable consumer goods	13,0	14,1	14,9	14,1
Fuels and lubricants	24,4	4,7	11,0	19,9

Source: Funcex

The same type of analysis shows that exported volume dropped only in the steel sector, 10.4%. The sharpest annual increase in exported volume was registered by the segment of parts and other vehicles, 15.6%, followed by oil and coal, 14.5%; animal slaughters, 14.3%; crop/livestock products, 12.4%; mineral products, 12.3%; machines and tractors, 9.8%; and oil refining, 5.2%.

Just as noted in 2006, annual growth in imports was basically generated by 22% expansion in imported volume, while prices rose 8.2%. This pattern, which is repeated in major final use categories, strengthens the beneficial aspect – as regards the short-term impact on internal prices and medium-term effects on installed industrial output capacity – as related to increased external purchases.

Annual evolution of imports of raw materials and intermediate goods resulted from 19.6% growth in imported volume and an 8.5% rise in prices, stressing that, with the exception of mineral products and intermediate goods, the imported volume of the major items in this category, parts and spares, expanded in the period.

Imports of consumer durables registered strong growth in imported volume, with 50.6%, coupled with stable prices. Purchases of passenger cars, which accounted for 37.8% of imports under this category, incorporated 63.5% expansion in the volume of purchases and a 1.7% drop in prices paid. One should stress that growth in the imported volume of this category is quite similar to the increase that occurred in the retail trade sector in 2007.

The imported volume of capital goods increased 32.1% compared to 2006, with emphasis on sharp growth under the most representative items in this category, including industrial machinery and office machines and apparatuses and scientific services. The increase in the prices of imported capital goods closed the year at 2.9%.

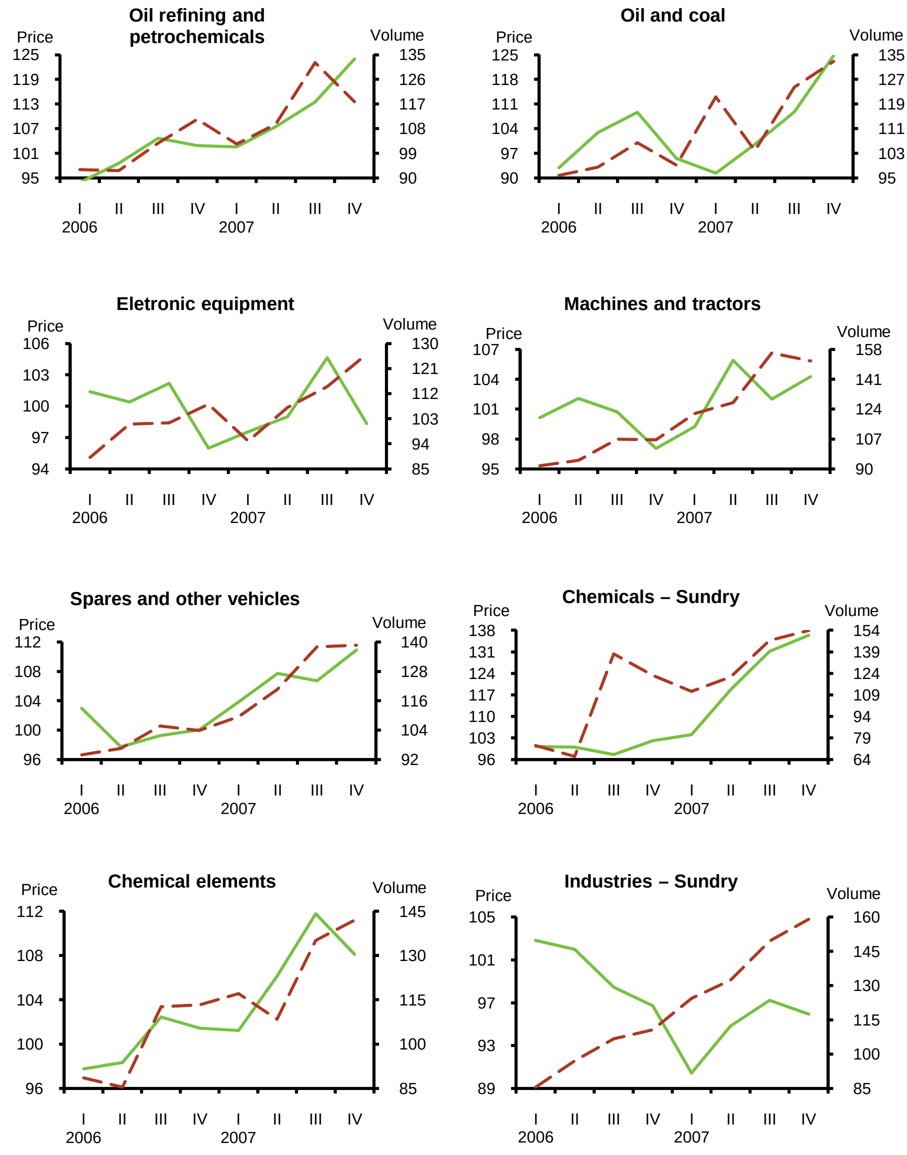
Contrary to what occurred in the other final use categories, the prices of nondurable consumer goods showed 14.9% growth, a figure that even surpassed expansion in imported volume, 14.1%. To a great extent, this result reflected the performance of food products, which registered a decline in imports during the year due to a sharp price rise. Moving in the opposite direction, mention should be made of increases in the volumes of pharmaceutical products and apparel acquired abroad.

In keeping with the increased dynamics of domestic demand, the imported volume of fuels and lubricants expanded 19.9% in 2007, while prices in this category rose 11%. This result represents an inversion of the pattern evident last year, when oil prices accounted for the preponderant impact.

Graph 5.5

Quarterly price indices and volume of Brazilian imports

2006 = 100



Source: Funcex

Broken down by industrial sectors, analysis of imports shows significant and generalized growth in volume in 2007. The most important increases occurred under diverse industrial sectors, 41.3%; machines and tractors, 39.2%; diverse chemical products, 33.4%; and parts and other vehicles, 26.8%. The average rate of growth in other sectors was 17.5%, fluctuating from 25.7% in the segment of chemical elements to 10.7% under electronic equipment.

The prices of imported products increased in most sectors, with emphasis on diverse chemicals, 22.6%; pharmaceuticals and perfumes, 15.1%; and apparel, 14.5%. Prices in the segment of diverse industrial products dropped 5.4% in 2007.

Table 5.6 – Exports by aggregate factor – FOB

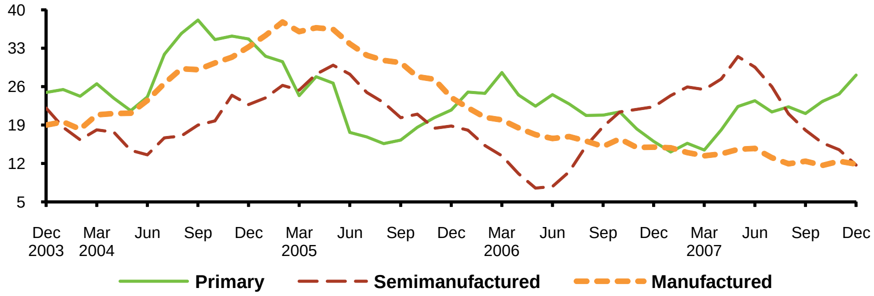
US$ million

Itemization	2003	2004	2005	2006	2007
Total	73 203	96 678	118 529	137 807	160 649
Primary products	21 186	28 529	34 732	40 285	51 595
Industrial products	50 709	66 571	81 315	94 541	105 743
Semimanufactured goods	10 945	13 433	15 963	19 523	21 800
Manufactured goods	39 764	53 137	65 353	75 018	83 943
Special transactions	1 308	1 579	2 482	2 981	3 311

Source: MDIC/Secex

Segmentation of the value of exports by aggregate factor shows significant expansion under sales of basic products, with 28.1% in 2007 against 16% in the preceding year. Foreign sales of semimanufactured goods increased 11.7%, while those of manufactured products rose 11.9% – the lowest rates since 2002 – compared to 22.3% and 14.8% in 2006, in that order.

Graph 5.6
Exports by aggregate factor – FOB
Last 12 months (% change)1/



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

Exports of basic products added up to US$51.6 billion in the year, with a daily average of US$206.4 million, 27.7% more than in the previous year. This result reflected increases under foreign sales of the five major products in this category, accounting for 65.7% of the total, led by chicken meat, with 43.7%. Aside from this, oil exports rose 28.6%, followed by soybeans, with 18%; iron ore, 17.5%; and beef, 10.8%. In this specific category, it should be stressed that only sales of soybeans, kaolin and marble and granite showed reductions in 2007 volumes, while the prices of all products expanded during the period.

Table 5.7 – Exports – FOB – Major primary products

% change 2007/2006 – Daily average

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Iron ore and concentrates	17,5	6,2	10,7	20,5
Petroleum oils, crude	28,6	12,8	14,0	17,3
Soybean including grinded	18,0	24,6	-5,3	13,0
Meat and edible offal of chicken	43,7	24,1	15,8	8,2
Meat of bovine animals	10,8	6,0	4,5	6,8
Coffee, not roasted	14,9	14,4	0,5	6,5
Oil-cake and other residues from soybeans	21,7	20,8	0,7	5,7
Tobacco, unmanufactured; tobacco refuse	29,0	5,6	22,2	4,3
Maize, unmilled	296,6	43,4	176,5	3,7
Meat of swine	16,9	2,9	13,6	2,3
Cupper ore and concentrates	97,7	26,1	56,8	2,0
Cotton, not carded or combed	49,3	8,8	37,2	1,0
Kaolin and other kaolinic clays	12,2	14,5	-2,1	0,6
Bovine animals, live	259,9	70,9	110,6	0,5
Aluminum ore and concentrates	22,2	12,6	8,5	0,5
Cashew nuts	19,6	0,7	18,8	0,4
Guts, bladders and stomachs of animals	55,9	42,7	9,2	0,4
Marble and granite	-3,5	3,2	-6,5	0,4
Grapes, fresh	42,6	12,8	26,4	0,3
Meat and edible offal of turkey	24,7	17,4	6,2	0,3
Other primary products	36,6	-	-	5,5

Source: MDIC/Secex

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

The countries of the EU were the largest buyers of Brazilian basic products, absorbing 35.3% of the external sales of this category, with a daily average of US$72.8 million. This value, 33% more than in the previous year, represented 45% of overall acquisitions of Brazilian products by the bloc. The six major basic items channeled to the EU were iron ore, soybeans, soy meal, coffee, oil and corn.

The major destinations for basic products in the bloc were the Netherlands, 21.5% of the total; Germany, 17.6%; Spain, 10.9%; Italy, 10.4%; and France, 9.8%. It should be highlighted the 74.4% growth in exports channeled to Spain.

The Asian countries acquired 28.9% of Brazilian exports of basic goods. Daily average sales under this category totaled US$59.7 million, accounting for 59.5% of total exports to the region, with emphasis on acquisitions of iron ore and soybeans, which accounted for more than 60% of total sales of basic products to those countries.

China, the major importer of basic goods in the region, absorbed 53.1% of these sales, 2.2 p.p. more than in the previous year. The participation of Japan dropped from 17.4% in 2006 to 15.8%, while that of South Korea fell from 9.9% to 7.9%.

Average daily sales of basic products to the USA increased 37.2% in 2007, totaling US$19.5 billion, equivalent to 19.3% of Brazilian exports to that country and 9.4% of exports under this category. Acquisitions were concentrated in oil, with annual growth of 59.6%; coffee; tobacco in leaf; and cashew nuts. Iron ore exports, the fourth most important item needed by the USA in 2006, dropped 17.9% in 2007.

The countries belonging to the Latin American Association of Integration (Laia) acquired 6.5% of Brazilian exports of basic goods, registering a daily average of US$13.5 million, 20.3% more than in 2006. These sales – which accounted for 9.3% of overall foreign sales to the region, of which 21.1% were targeted to Mercosul member countries – were concentrated in oil, iron ore, chicken meat and live cattle. One should stress the performance of exports of live cattle, which rose from US$32.5 million in 2006 to a level of US$189 billion in 2007, basically reflecting increased sales to Venezuela. The most important buyer countries in the region were Chile, 43.1%; Venezuela, 17.1%; Argentina, 16.5%; and Peru.

Daily average exports of basic products to other countries – mostly involving chicken meat, beef, oil, iron ore, pork, corn and soybeans – increased 25.6% in 2007, reaching a level of US$41 million. This amount represented 19.9% of Brazilian foreign sales in this category and 30.8% of total sales to those countries. Russia continued as the major market of destination among these countries, absorbing 21.4% of the total, compared to 25.3% in 2006.

Brazilian exports of semimanufactured goods in 2007 totaled US$21.8 billion, for a daily average of US$87.2 million, 11.2% over the previous year's results. Sales of the category were concentrated under raw sugar, cellulose, iron or steel manufactured products, leathers and hides and cast iron and Spiegel iron. The prices of all of the different types of items in this category rose during the year, with the exception of raw sugar, wood veneers and copper cathodes, which declined 18.2%, 8% and 2.3%, respectively. As regards exported volumes, mention should be made of increases in sales of copper cathodes, 81.4%, and nickel cathodes, 29.4%; coupled with reductions under iron or steel manufactured products, 11.5%; leathers and hides, 5.3%; and raw sugar, 3.2%.

Asia, which is the major market of destination for Brazilian semimanufactured goods, acquired 27.4% of sales, equivalent to 23.9% of the total exported to the region. One should highlight sales of leathers and hides, iron or steel semimanufactured goods, cellulose and unrefined soybean oil. The countries that accounted for the largest imports of semimanufactured products in the region were China, with participation grew from

27.8% in 2006 to 32.4% in 2007; Japan, 20.2% against 25.6% in the previous year; South Korea, 10%; and Malaysia, 6.4%.

The EU acquired 26.8% of the semimanufactured products exported by Brazil in 2007. The daily average of US$23.4 million, 31.3% more than in the previous year, corresponded to 14.5% of overall Brazilian exports to the bloc. The major items targeted to the region were cellulose; leathers and hides; and iron alloys, registering 98.1%

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

Daily average – US$ million

Product	2006	2007			
	Value	Value	Change from 2006 (%)	Share (%)	
				Total	Blocs
Total	552	641	16,2	100,0	-
Basic	162	206	27,6	32,2	-
Semimanufactured	78	87	11,2	13,6	-
Manufactured	301	336	11,4	52,4	-
Special transactions	10	12	14,3	1,8	-
Laia	126	145	15,4	22,6	100,0
Basic	11	13	20,3	2,1	9,3
Semimanufactured	5	5	2,8	0,8	3,6
Manufactured	109	126	15,5	19,7	87,1
Special transactions	0	0	-5,6	0,0	0,0
Mercosur	56	69	23,7	10,8	100,0
Basic	3	3	8,4	0,4	4,1
Semimanufactured	2	2	8,3	0,3	2,9
Manufactured	52	64	25,1	10,1	93,0
Special transactions	0	0	-100,0	0,0	0,0
USA[1/]	99	101	1,8	15,7	100,0
Basic	14	19	37,2	3,0	19,3
Semimanufactured	17	17	0,8	2,7	16,9
Manufactured	68	64	-5,3	10,0	63,6
Special transactions	0	0	5,9	0,0	0,1
European Union	125	162	29,7	25,2	100,0
Basic	55	73	33,0	11,4	45,0
Semimanufactured	18	23	31,3	3,7	14,5
Manufactured	52	65	25,7	10,2	40,4
Special transactions	0	0	2,3	0,0	0,1
Asia	83	100	20,2	15,6	100,0
Basic	49	60	21,7	9,3	59,5
Semimanufactured	18	24	29,8	3,7	23,9
Manufactured	16	17	4,2	2,6	16,6
Special transactions	0	0	35,9	0,0	0,1
Others	119	133	12,1	20,8	100,0
Basic	33	41	25,6	6,4	30,8
Semimanufactured	20	18	-12,7	2,7	13,2
Manufactured	56	63	12,6	9,9	47,7
Special transactions	10	11	14,6	1,7	8,4

Source: MDIC/Secex

1/ Includes Puerto Rico.

growth in exported value in the year, while the principal markets of destination were the Netherlands, 33.4% of the total; Italy, 20.8%; Belgium, 13.6%; and Germany, 8.5%.

Average daily exports of semimanufactured products to the USA increased 0.8% in 2007, to US$17.1 million, accounting for 19.6% of Brazilian exports in this category and 16.9% of Brazilian products imported by that country. One should highlight the performance of sales of cast iron and Spiegel iron, 27% of the total; gold in semimanufactured forms; cellulose; iron or steel semimanufactured products; and leathers and hides.

Table 5.9 – Exports – FOB – Major semimanufactured goods

% change 2007/2006 – Daily average

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Cane sugar, raw	-20,8	-18,2	-3,2	14,4
Chemical wood pulp	21,0	15,4	4,9	13,8
Iron or nonalloy steel semifinished products	2,4	15,6	-11,5	10,7
Hides and skins	16,3	22,7	-5,3	10,0
Pig iron and spiegeleisen	13,5	19,7	-5,1	8,6
Aluminum, unwrought, not alloyed	1,1	7,1	-5,7	7,0
Iron alloys	74,0	79,1	-2,8	6,7
Soybean oil, crude	46,8	45,3	1,1	5,6
Wood, sawn or chipped lenghtwise	9,1	8,5	0,5	4,3
Gold, nonmonetary in semimanufactured forms	19,6	10,0	8,7	3,6
Cooper cathodes	77,2	-2,3	81,4	3,1
Aluminum alloys, unwrought	13,1	7,2	5,5	3,1
Nickel cathodes	75,3	35,4	29,4	1,7
Synthetic rubber and artificial rubber	-1,3	10,7	-10,8	1,4
Nickel mattes	78,9	64,0	9,0	0,8
Cocoa butter, fat or oil	7,4	20,5	-10,8	0,7
Zinc, unwrought, not alloyed	-27,2	8,6	-33,0	0,7
Wood in chips or particles	8,9	2,8	5,9	0,5
Wood sheets	27,7	-8,0	38,8	0,4
Tin, unwrought, not alloyed	98,4	57,7	25,8	0,4
Other semimanufactured products	11,0	-	2,5	2,6

Source: MDIC/Secex

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

The Laia countries were the destination of 6% of Brazilian exports of semimanufactured goods. Average daily sales – concentrated under iron or steel semimanufactured goods, iron alloys, aluminum, synthetic rubber and artificial rubber, cast iron and Spiegel iron and raw sugar – reached US$5.2 million, an increase of 2.8% compared to the previous year, representing 3.6% of total Brazilian products imported by the bloc. The major countries of destination in the region were Argentina, 32.1%; Mexico, 29.6%; Colombia, 10.5%; and Venezuela, 8.1%. The Mercosul countries absorbed 37.9% of the total exported to the Laia region, 8.3% more than in 2006.

Average daily exports of semimanufactured goods to other countries reached US$17.5 million, 12.7% less than in the previous year, accounting for 20.1% of total sales of semimanufactured products and 13.2% of total Brazilian products imported by those countries. This result was driven by the performance of foreign sales of raw sugar, which, despite a 20.5% falloff in the year, accounted for 57.6% of the total; raw aluminum, with annual growth of 32.6%; unrefined soybean oil; and iron or steel semimanufactured products. Basically, these sales were targeted to Russia, with 23.9% of the total; Switzerland, 15.1%; Iran, 13%; and Canada, with 6.7%.

Table 5.10 – Exports – FOB – Major manufactured goods

% change 2007/2006 – Daily average

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Airplanes	45,0	-7,1	56,1	5,6
Passenger motor vehicles	0,8	8,0	-6,6	5,5
Parts and acessories for motor cars and tractors	6,8	8,8	-1,8	3,8
Passenger motor vehicles engines and parts thereof	-9,0	2,5	-11,2	3,0
Iron or nonalloy steel flat-rolled products	-7,2	25,6	-26,2	3,0
Transmission and reception apparatus, and components	-23,6	21,2	-37,0	2,8
Fuel oils	1,4	18,2	-14,2	2,7
Motor vehicles for the transport of goods	9,5	6,0	3,3	2,4
Footwear, parts and components	3,2	8,3	-4,7	2,4
Cane sugar, refined	-12,0	-22,6	13,6	2,3
Gasoline	52,6	11,7	36,7	2,2
Electric motors, generators and transformers; parts thereof	27,5	14,6	11,3	2,0
Tractors	26,6	8,3	16,9	1,9
Pumps, compressors, fans and others	13,9	18,6	-4,0	1,9
Polymer of ethylene, prophylene and sthyrene	12,1	10,6	1,4	1,8
Orange juice, frozen	47,3	47,3	-0,0	1,8
Civil engineering and contractors' plant and equipment	4,3	5,4	-1,0	1,8
Ethyl alcohol, undenatured	-8,3	-10,9	2,9	1,8
Pneumatic rubber tires	35,2	18,9	13,8	1,6
Aluminum oxide and aluminum hydroxide	16,3	4,5	11,3	1,5
Chassis fitted with engines and bodies for motor vehicles	7,6	10,0	-2,2	1,3
Iron and steel bars and rods	0,5	16,2	-13,5	1,2
Furniture and parts thereof, except for medical-surgical use	3,1	4,3	-1,2	1,2
Paper and paperboard used for writing, printing etc.	16,1	10,3	5,3	1,0
Hydrocarbons and halogenated derivatives	28,5	15,4	11,3	1,0
Marble and granite works	5,5	6,9	-1,3	0,9
Gears and gearing; ball screws; gear boxes, etc; parts thereof	13,4	-4,5	18,8	0,9
Orange juice, not frozen	66,0	22,2	35,8	0,8
Plywood and similar laminated wood	6,7	19,6	-10,8	0,8
Prepared meals of the meat of bovine animals	5,7	2,8	2,7	0,8
Other manufactured products	16,6	-	2,6	37,9

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.

Exports of manufactured products in 2007 totaled US$83.9 billion, with a daily average of US$335.8 million, 11.4% more than in the previous year. Among the 10 most important items in this category, with 33.8% of total sales in 2007, six registered annual growth in exported value, mainly aircraft, the major item among these products, with 45%; and cargo vehicles, 9.5%; while four posted downward movement, mainly transmission devices, 23.6%; and refined sugar, 12%. With regard to the behavior of export prices in this category, declines were registered only under refined sugar, 22.6%; and aircraft, 7.1%, while the most important price increases occurred under frozen orange juice, 47.3%; and flat rolled iron/steel, 25.6%. As regards the volume of exports, it is important to stress increases under aircraft, 56.1%; and gasoline, 36.7%; and reductions in the cases of transmission or reception apparatuses, 37%; and flat rolled iron/steel, 26.2%.

Exports of manufactured products to the Laia countries reached a daily average of US$126.2 million in 2007, 15.5% more than in the previous year. This amount was equivalent to 37.6% of total exports in this category and to 87.1% of the total exported to the region. These sales, which were concentrated under passenger cars, transmission or reception devices, auto parts and cargo vehicles, were mainly targeted to Argentina, 42.5%; Venezuela, 12.4%; Mexico, 11.8%; and Chile, 8.7%. Exports to the Mercosul member countries came to a daily average of US$64.5 million, up 25.1% in the year, accounting for 51.1% of the total acquired by the region, of which 83.2% were absorbed by Argentina.

Exports of manufactured products to the EU totaled US$65.3 million in terms of daily average, with growth of 25.7% compared to 2006. These sales represented 19.4% of total sales in this category and 40.4% of the total exported to the bloc. The main countries of destination were Germany, 21.5% of the total; the Netherlands, with 18.1%; the United Kingdom, 11.8%; and Belgium, 11.4%, while the major products shipped to the region were aircraft, frozen orange juice – with annual growth of 51.6% –, automobile engines, passenger cars and flat rolled steel.

Sales of manufactured products to the USA reached a daily average of US$64.2 million in 2007, a falloff of 5.3% compared to the preceding year. This total accounted for 63.6% of the total amount exported to the country, representing 19.1% of Brazilian exports in this category, against 22.5% in 2006. The major items exported to the USA were aircraft, with growth of 49.8%; automobile engines; footwear; motors, electric generators and transformers; and auto parts. One should also highlight strong annual growth of 359% in sales of fuel oils, an item that rose from 38th position to 10th position among Brazilian exports; plus a 58.8% decline in foreign sales of ethyl alcohol, following growth of more than 1000% in 2006.

Daily average sales of manufactured products to the countries of Asia increased 4.2% in 2007, reaching US$16.6 million or 16.6% of Brazilian products acquired by the region and 4.9% of total exports of manufactured goods. These sales were concentrated under fuel oils, frozen orange juice, ethyl alcohol, flat rolled steel and automobile engines. One should stress the 91.4% reduction that occurred under sales of refined sugar, which dropped from 2nd to 38th position among the major export items. The main countries of destination in the region were Singapore, 25.4% of the total; China, 20.9%; Japan, 18.1%; and India 7.6%.

Acquisitions of products manufactured by the other countries – mostly refined sugar, gasoline, aircraft, aluminum oxides and hydroxides and tractors – reached a daily average of US$63.5 million in 2007, for annual growth of 12.6%, corresponding to 47.7% of the total exported to that group of countries and to 18.9% of total exports of manufactured products. The major countries of destination were Canada, 11.4%; South Africa, 8.8%; Nigeria, 7.9%; Angola, 6.8%; and the Dutch Antilles, with 5.1%.

Analysis of exports according to their technological intensity shows annual growth of 12.8% in the external sales of industrial products in 2007, representing a daily average of US$476 million and 74% of overall foreign sales. Segmentation of industrial exports according to their technological complexity shows that sales of items with low technological content were the most representative goods in the year, accounting for 27% of overall exports in 2007. Here, particular emphasis should be given to the dynamics of exports of food products, beverages and tobacco, which increased 14.9%

Table 5.11 – Exports by tecnological intensity – FOB

US$ million – Daily average

Itemization	2006	2007		
		Valor	Var.%	Part.%
Total	553	643	16,1	100,0
Industrial products	422	476	12,8	74,0
High tecnology	38	41	8,4	6,4
Aircraft	15	21	38,5	3,2
Telecom, audio and video equipment	14	11	-20,7	1,8
Other	8	9	4,4	1,4
Middle-high tecnology	131	146	11,8	22,7
Road motor vehicles	57	59	3,7	9,2
Non-electrical machinery Nesoy	33	39	16,8	6,1
Chemicals products, excluded pharmaceutical	27	33	19,6	5,1
Other	13	15	18,6	2,4
Middle-low tecnology	100	115	15,4	18,0
Fabricated metal products	68	76	10,9	11,8
Petroleum products and other fuels	15	17	17,7	2,7
Other	17	22	31,9	3,5
Low tecnology	154	173	12,9	27,0
Food, beverages and tobacco	96	111	14,9	17,3
Wood, paper and pulp	29	33	11,6	5,1
Textiles, hides and skins and footwear	22	24	7,6	3,8
Manufactured products Nesoy and recycled products	6	6	6,0	0,9

Source: MDIC/Secex,

Note: 2006, 249 working days; 2007, 250 working days.

in the year, corresponding to 17.3% of the sales of this product grouping. Exports of goods with medium to high technological content registered a daily average of US$146 million, 22.7% of total exports. These operations were driven by the vigor of sales of automobiles, mechanical machines and equipment and nonpharmaceutical chemical products. Average daily exports of medium to low technological content products and goods with high technological content came to US$115 million and US$41 million, representing 18% and 6.8% of the country's total foreign sales.

The most accentuated growth occurred under products with medium to low technological content, with 15.4%, driven mainly by the dynamics of the sector of metallic products, followed by the products of low technology industries, 12.9%; medium to high technology industries, 11.8%; and high technology industries, 8.4%. The latter item reflects the negative performance of the segment of radio, TV and communications equipment, which registered a 20.7% decline in exported value compared to 2006.

Table 5.12 – Imports – FOB

US$ million

Itemization	2003	2004	2005	2006	2007
Total	48 326	62 836	73 600	91 351	120 621
Capital goods	10 353	12 145	15 387	18 920	25 108
Raw materials and intermediate product	25 832	33 512	37 804	45 237	59 295
Consumer goods	5 540	6 864	8 484	11 996	16 150
Durable	2 419	3 190	3 928	6 079	8 260
Nondurable	3 121	3 674	4 556	5 918	7 890
Fuels and lubricants	6 600	10 315	11 925	15 197	20 068

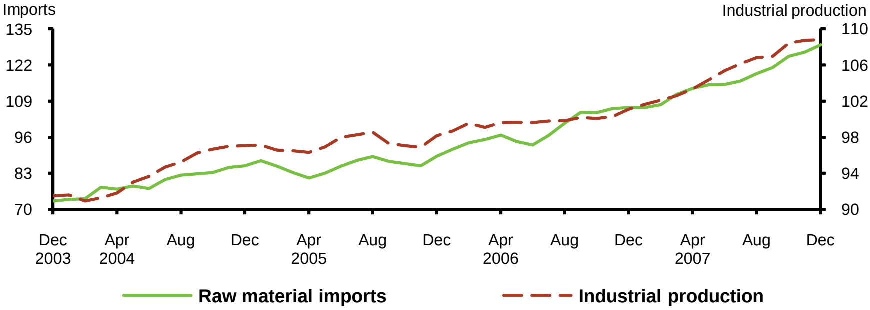
Source: MDIC/Secex

The upturn in overall imports in 2007 reflected growth between 30.6% and 35.3% in average daily purchases in all final use categories. This was the fourth consecutive year of expansion under all categories imported. Purchases of raw materials and intermediate goods and capital goods, which accounted for 70% of annual imports, increased at rates of 30.6% and 32.2%, against 20.6% and 23.9%, respectively, in 2006. This performance was clearly in step with the upturn in the output of the manufacturing sector, and with overall growth in the level of utilization of installed output capacity. Imports of fuels and lubricants expanded 31.5%, against 28.5% in the previous year, while those related to consumer goods registered for the second consecutive year the highest rate of annual growth, with 34.1%, although at a less intense pace than in 2006.

Imports of raw materials and intermediate goods accounted for 49.2% of total imports, reaching a daily average of US$237 million in 2007, driven by purchases of chemical and pharmaceutical products, mineral products, intermediate goods – parts and spares as well as transportation accessories and equipment – which accounted for 75.1%

of imports in this category. Annual growth in the value of purchases of both mineral products and intermediate goods – parts and spares – resulted from price increases, while the volume imported was the major determining factor of alterations in exports in the other segments.

Graph 5.7
Raw material imports x industrial production
Seasonally adjusted indices – 3 month moving average



Source: IBGE and Funcex

Purchases of raw materials and intermediate products from the EU reached US$57 million in terms of daily averages, representing annual growth of 28.3%. This result represented 24.1% of purchases in this category and 53.5% of the total imported from that bloc. The major products acquired were auto-parts, 12.8% of the total; heterocyclical compounds, 5.2%; automobile engines, 5%; ball bearings and gears, 4.7%; and parts and spares for aircraft, 4.5%; while the major supplier countries were Germany, 32.4% of total; France, 14.8%; Italy, 10.5%; the United Kingdom, 8.2%; and Spain, 7.2%. Imports from the United Kingdom and Germany were the most dynamic, with increases of 40.7% and 36.2% in the year, respectively.

Purchases of raw materials and intermediate goods from Asia came to a daily average of US$56 million, representing an increase of 31.6% in the year. This result corresponded to 23.7% of purchases in this category and 45.8% of the total imported from the region. The major products from Asia were integrated circuits and electronic micro-sets, 17.5% of the total; computer parts and accessories, 7.9%; synthetic or artificial textile fiber yarns, 5.6%; auto-parts, 4.9%; and natural rubber, 3.4%. The major suppliers were China, with 34.8% of the total; Japan, 17.3%; South Korea, 10%; and Taiwan, 8.3%.

Average daily purchases of raw materials and intermediate goods from the Laia countries totaled US$50 million, 25.9% more than in 2006, corresponding to 21.2% of imports in this category and 61.1% of imports from the bloc. These goods came mainly from Argentina, with 47.9% of total; Chile, 25.2%; Peru, 7.7%; and Mexico, 7.6%. Products with more representative participation were copper cathodes, 12.9% of the total; wheat, 9.8%; naphthas, 9.7%; copper ore, 8.4%; and auto-parts, 5.3%.

Table 5.13 – Imports – FOB – Major products

% change 2007/2006 – Daily average

Products	Value	Price[1/]	Weight[2/]	Participation[3/]
Capital goods				100,0
Industrial machinery	37,9	-1,1	39,5	29,3
Machines and apparat. for office and scientific destination	28,2	4,8	22,3	21,8
Capital goods parts and components	97,7	46,6	34,9	16,7
Transportation movable equipment	33,4	16,7	14,3	7,5
Industrial machinery accessories	34,4	-0,9	35,7	7,3
Tools	41,7	-5,5	49,9	1,9
Other capital goods	-6,1	168,4	-65,0	15,6
Intermediate products and raw material				100,0
Chemical and pharmaceutical products	27,6	9,3	16,7	26,4
Mineral products	26,1	26,6	-0,4	19,6
Intermediate products – Parts	12,6	14,1	-1,3	14,9
Accessories for transport equipment	34,1	8,2	24,0	14,3
Inedible farm products	81,3	32,0	37,3	9,3
Other raw materials for farming	25,7	14,5	9,8	6,9
Foodstuffs	50,9	37,6	9,6	4,4
Other raw materials and intermediate products	46,6	18,4	23,8	4,3
Nondurable consumer goods				100,0
Pharmaceutical products	33,4	16,3	14,8	37,4
Foodstuffs	20,0	42,2	-15,6	26,8
Apparel and other textiles clothing	65,9	7,5	54,4	8,8
Perfumery, cosmetics, or toilet preparations	33,1	0,9	32,0	5,6
Tobacco and beverage	22,7	0,6	22,0	4,5
Other nondurable consumer goods	36,5	9,5	24,7	16,9
Durable consumer goods				100,0
Passenger motor vehicles	60,7	-1,7	63,5	42,7
Articles for personal use or adornment	31,5	9,7	19,9	22,3
Machines and appliances for household use	21,5	-9,0	33,5	19,1
Durable consumer goods parts	-15,3	-30,5	21,8	7,8
Furniture and other household equipment	44,3	4,3	38,4	4,8
Other durable consumer goods	53,3	-7,4	65,6	3,3
Fuels and lubricants				100,0
Fuels	31,3	12,5	16,8	97,8
Lubricants and electricity	39,7	-2,4	43,1	2,2

Source: MDIC/Secex

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

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

Daily average – US$ million

Product	2006	2007			
	Value	Value	Change from	Share (%)	
			2006 (%)	Total	Blocs
Total	367	482	31,5	100,0	-
Capital goods	76	100	32,2	20,8	-
Durable consumer goods	24	33	35,3	6,8	-
Nondurable consumer goods	24	32	32,5	6,5	-
Fuels and lubricants	61	80	31,5	16,6	-
Raw material and intermediate goods	182	238	30.7	49.3	-
Laia	65	82	25,9	17,1	100,0
Capital goods	5	6	24,1	1,2	7,0
Durable consumer goods	6	10	71,6	2,1	12,1
Nondurable consumer goods	6	7	20,1	1,4	8,4
Fuels and lubricants	9	9	1,6	1,9	11,3
Raw material and intermediate goods	40	50	25,9	10,4	61,1
Mercosul	36	47	29,2	9,6	100,0
Capital goods	4	4	20,6	0,9	9,1
Durable consumer goods	4	8	75,2	1,6	16,2
Nondurable consumer goods	4	5	17,0	1,1	11,2
Fuels and lubricants	2	2	-6,0	0,4	4,0
Raw material and intermediate goods	22	28	27,2	5,7	59,5
USA[1/]	60	76	27,0	15,7	100,0
Capital goods	16	19	18,4	3,8	24,6
Durable consumer goods	2	3	22,6	0,6	3,6
Nondurable consumer goods	4	4	22,2	0,9	5,9
Fuels and lubricants	4	6	54,9	1,2	7,9
Raw material and intermediate goods	34	44	28,5	9,1	58,1
European Union	81	107	31,8	22,2	100,0
Capital goods	23	32	38,4	6,7	30,3
Durable consumer goods	5	6	11,5	1,2	5,3
Nondurable consumer goods	6	9	32,7	1,8	8,0
Fuels and lubricants	2	3	94,1	0,6	2,9
Raw material and intermediate goods	45	57	28,3	11,9	53,5
Asia	92	123	33,7	25,5	100,0
Capital goods	29	39	35,7	8,1	31,8
Durable consumer goods	11	14	29,3	2,9	11,3
Nondurable consumer goods	5	7	50,4	1,4	5,7
Fuels and lubricants	5	7	33,2	1,4	5,5
Raw material and intermediate goods	43	56	31,6	11,7	45,8
Others	69	95	37,5	19,6	100,0
Capital goods	3	5	33,9	1,0	4,9
Durable consumer goods	1	1	40,8	0,2	0,8
Nondurable consumer goods	3	5	40,5	0,9	4,8
Fuels and lubricants	41	55	33,4	11,4	58,2
Raw material and intermediate goods	20	30	46.9	6.2	31.6

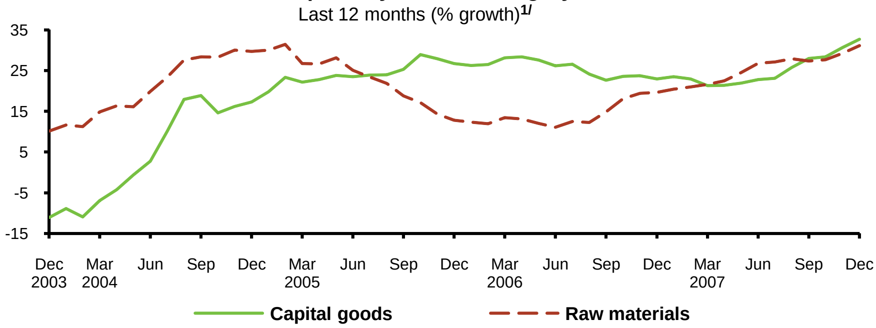
Source: MDIC/Secex

1/ Includes Puerto Rico.

Imports of raw materials and intermediate goods from the United States came to a daily average of US$44 million, with annual growth of 28.5%. These operations corresponded to 18.5% of imports in this category and 58.1% of the total purchased from that country. The most important products were motors and airplane turbines, 13.2% of the total; aircraft parts and spares, 4.7%; heterocyclical compounds, 4%; and ball bearings and gears, 3.2%.

Purchases of raw materials and intermediate goods from all other countries reached US$30 million in terms of daily averages, 46.9% more than in 2006. These operations represented 12.6% of total purchases in this category and 31.6% of the total imported from this group of countries. The major items imported were potassium chloride, 16.5% of the total; naphthas, 9.8%; fertilizers, 9.5%; urea, 9.2%; and superphosphates, 4.6%.

Graph 5.8
Brazilian imports by end use category – FOB
Last 12 months (% growth)1/



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

Average daily imports of capital goods added up to US$100 million in 2007, corresponding to 20.8% of Brazilian foreign purchases, with emphasis on industrial machinery, 29.3% of total; machines and office equipment and scientific equipment, 21.8%; parts and spares for industrial capital goods, 16.7%; and movable transportation equipment, 7.5%. The value of the imports of these items registered accentuated increases in the year, as a result of both increases in imported volumes and price growth, particularly in the case of parts and spares for industrial capital goods.

Imports of capital goods from Asia represented 31.8% of overall purchases from that region, closing with a daily average of US$39 million in 2007 for 35.7% growth compared to 2006. This result consolidated the region as a major supplier of these goods to the country, with 38.8% participation in this category. The major items imported from Asia were printed circuits, 15.3% of the total; liquid crystal devices, 11.2%; computers and parts, 11.1%; motors, generators and electric transformers, 5.9%; and transmission and receiver devices, 4.2%. The major supplier countries were China, 48.9% of total; Japan, 15.6%; South Korea, 12.8%; and Taiwan, 7.9%.

Imports of capital goods from the EU came to a daily average of US$32 million in 2007, 32.2% of overall imports in this category, corresponding to 38.4% growth as compared to the previous year and representing 30.3% of imports from that bloc of nations. Purchases were concentrated under measuring and verification instruments and apparatuses, 9.4% of the total; pumps, compressors and ventilators, 6.5%; electric motors, generators and transformers, 4.1%; and energy interruption and protection equipment, 3.9%. The most important supplier countries were Germany, 37.3% of total; Italy, 16.5%; France, 10.2%; Sweden, 6.4%; and Spain, 5.8%.

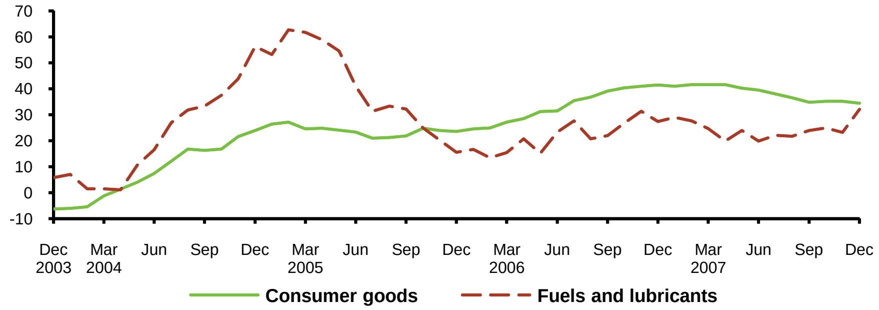
Average daily acquisitions of capital goods from the USA increased 18.4% in the year, rising to US$19 million, corresponding to 18.5% of purchases in this category and 24.6% of imports from the US. The major products acquired were measurement and verification instruments and apparatuses, with 12.1% of the total; computers and parts, 6.3%; aircraft, 6.2%; medical instruments and apparatuses, 5.9%; pumps, compressors and ventilators, 5.7%; and machines and earthmoving and drilling equipment, 5.7%. Here, one should highlight that imports of aircraft were almost four times greater than in 2006.

Capital goods imported from the Laia member countries averaged US$6 million, 24.1% more than in 2006, representing 5.8% of purchases in this category and 7% of acquisitions from that bloc. Purchases were concentrated under cargo vehicles, 48.7%; measuring and verification instruments and apparatuses, 5.5%; transmission and reception apparatuses, 5.2%; and buses and other vehicles for more than 10 people, 4.5%. These goods originated mainly from Argentina, 72.8%; Mexico, 23.2% and Chile, with 2.2%. It is important to observe that imports from Mexico grew 43.2% in the year, the highest rate of any country in that bloc.

Foreign purchases of capital goods from the grouping of other countries totaled US$5 million per day, a 34.9% increase over 2006, accounting for 4.7% of imports in this category and 5% of the total acquired from that group. Purchases were concentrated for the most part in Switzerland, 36.5% of the total; Canada, 32.1%; Israel, 10.5%; Norway, 5.2%; and Australia, 4.2%, and consisted mainly of measurement and verification instruments and apparatuses, with 6.9% of the total; earthmoving and drilling machines and equipment, 6.4%; aircraft, 6.1%; and railway vehicles and equipment, 4.5%.

Average daily imports of fuels and lubricants reached US$80 million in 2007, equivalent to 16.6% of Brazilian foreign purchases, of which 59.7% consisted of crude oil, followed by fuel oils, 15.2%; coal, 7.6%; and natural gas, 7.5%. The most important supplier countries were Nigeria, 25.7%; Algeria, 8.7%; Saudi Arabia, 8.1%; Bolivia, 7.6%; USA, 7.5%; and India, with 5.4%. Imports from Nigeria, Algeria and Saudi Arabia accounted for 69.8% of crude oil acquisitions, while Bolivia accounted for 98.3% of Brazilian purchases of natural gas.

Graph 5.9
Brazilian imports by end use category – FOB
Last 12 months (% change)1/



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

Average daily imports of consumer durables, which expanded 35.2% in 2007, reached US$33 million, corresponding to 6.8% of the country's external purchases. These acquisitions originated particularly in Asia, with 42.1% of the total; the Laia countries, with 30.2%, as a result of 71.6% annual growth; and the EU, 17.3%. The major supplier countries were Argentina, 21.6% of the total; China, 21.1%; South Korea, 8.2%; the United States, 8.1%; Mexico, 7.1%; and Japan, 6.3%. Here, one should stress annual growth in imports from Argentina, which had a participation level in 2006 below that of China. The major products imported in this category were passenger cars, 42.7%; personal adornment and use articles, 22.3%; and machines and apparatuses for domestic use, 19.1%.

Average daily imports of nondurable consumer goods reached US$31 million in 2007, for growth of 31.7% compared to the previous year, accounting for 6.4% of Brazilian external acquisitions. For the most part, purchases originated in the EU, with 27.6% of the total; Asia, 22.5%; and the Laia countries, with 22.3%, while the most important supplier countries were Argentina, 14.1%; the United States, 13.2%; China, 12.6%; Switzerland, 7.6%; and Germany, 5.2%. Imports of this category were concentrated under medicines, including for veterinary usage, 37.2%; toys and games, with 3.4%; perfume and dresser products, 3.3%; dried fish, 2.9%; and footwear and parts, 2.7%.

Trade exchanges

In 2007, the Brazilian trade flow came to US$281.3 billion, 22.7% above the record of US$229.5 billion set in the previous year. Based on daily averages, growth was registered in trade operations with all of the different blocs and regions, with particular emphasis on operations with the EU, 30.5%, Asia, 27.2%, while trade with China increased 42% and operations with the Laia countries expanded 18.8%. A breakdown of the latter figure shows 25.8% expansion in trade with the Mercosul member countries. Though positive with the major blocs and areas, the country's trade balance surplus with the

United States declined 35.7%, while the deficit in operations with the countries of Asia worsened, particularly as a result of increased imports from China.

Bilateral trade with the EU closed with a daily average of US$269 million in 2007 accounting for 23.9% of the country's trade flow. Average daily imports added up to US$107 million, while average exports closed at US$162 million, reflecting respective growth rates of 31.8% and 29.7% compared to 2006. The major trading partners in the bloc were Germany, with a daily flow of US$64 million, corresponding to 26.2% growth in exports and 32.9% under imports, which closed at respective levels of US$29 million and US$35 million per day, followed by the Netherlands, with daily average exports and imports of approximately US$35 million and US$4 million, respectively, and Italy, with total bilateral trade of US$31 million, based on Brazilian exports of US$18 million and imports of US$13 million. Just as occurred in the previous year, the trade flow with France closed in a state of balance between imports and exports, with a daily average of US$28 million.

The flow of trade operations with the Laia member countries came to US$228 million per day, making them the second most important for the country. Exports to the region, which have been consolidating itself as one of the major destinations for Brazilian manufactured goods with greater technological content, reached US$146 million, while imports closed at US$82 million, with respective annual growth rates of 15.2% and 25.9%. The trade flow with Argentina, Brazil's second most important individual trading partner, posted growth of 22.3% under Brazilian exports and 28.7% in imports from Argentina, with respective totals of approximately US$58 million and US$42 million and a daily overall average of US$99 million. The latter figure represented 43.6% of total trade flows with the bloc. The relative balance between the growth rates registered by these trade flows contributed to stabilize the trade exchange between the two countries.

Still in the Laia context, the second most important trade flow was that with Chile, with a daily flow of US$31 million, for growth of 8.5% under exports and 21% under imports. These operations closed with respective average daily balances of US$17 million and US$14 million. The trade flow with Mexico, Brazil's third most important trading partner within the bloc, reached a level of US$25 million, the same amount as in 2006. It is important to stress that, among the other Laia countries, the trade flow with Venezuela expanded 21.5%, registering a daily average of US$20 million. In this case particular emphasis should be given to annual growth of US$5 million in Brazilian exports to the Venezuelan market, closing with a daily average of US$19 million.

The trade flow with Asia expanded 27.2% in 2007, reflecting a 20% increase in Brazilian foreign sales and 33.7% in imports, with respective daily totals of US$100 million and US$123 million. The increased dynamics of the import sector generated growth in the deficit with the countries of that region, as the daily average shifted from US$8 million

Table 5.15 – Brazilian trade by region – FOB

Daily average – US$ million

Itemization	2006			2007		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	553	367	187	643	482	160
EFTA 1/	6	7	-1	7	11	-4
Laia	126	65	61	146	82	63
Mercosur	56	36	20	69	47	23
Argentina	47	32	15	58	42	16
Paraguay	5	1	4	7	2	5
Uruguay	4	2	2	5	3	2
Chile	16	12	4	17	14	3
Mexico	17	8	9	17	8	9
Others	37	10	28	42	14	28
Canada	9	5	4	9	7	3
European Union	125	81	44	162	107	55
Germany	23	26	-3	29	35	-6
Belgium/Luxembourg	12	4	8	16	5	11
Spain	9	6	3	14	7	6
France	11	11	-1	14	14	-0
Italy	15	10	5	18	13	4
Netherlands	23	3	20	35	4	31
United Kingdom	11	6	6	13	8	5
Others	20	15	5	23	20	3
Eastern Europe	16	6	10	17	11	6
Asia 2/	84	92	-8	100	123	-23
Japan	16	15	0	17	18	-1
China	34	32	2	43	50	-7
Korea, Republic of	8	12	-5	8	14	-5
Others	26	32	-6	32	40	-9
USA 3/	99	60	40	101	76	26
Others	89	52	37	100	66	34
Memo:						
Nafta	127	70	57	128	90	37
Opec	46	42	4	55	53	3

Source: MDIC/Secex

1/ Iceland, Liechtenstein, Norway and Switzerland.

2/ Excludes the Middle East.

3/ Includes Puerto Rico.

in 2006 to US$23 million. Daily average trade with China, Brazil's major trading partner in that region of the world, moved to US$93 million, accounting for 41.9% of overall trade flows with Asia. Basically, this result was generated by increases of 27.4% in Brazilian exports and 57.3% in imports, with average daily balances of approximately

US$43 million and US$50 million. The daily trade flow with Japan expanded from US$31 million in 2006 to US$36 million, representing an increase of 10.5% under exports, with a total of US$17 million per day, and 19.6% under imports, with US$18 million per day. Once again, the third most important trade balance result in that region was that involving operations with South Korea, with a daily total of US$22 million. Annual growth of 6.8% in these flows basically reflected larger Brazilian imports.

Just as in previous years, bilateral trade with the United States represented the most significant flow with any individual country in the world, registering a daily average of US$177 million, against US$159 million in 2006. The annual growth level of 11.2% was, for the most part, a result of daily average imports, which expanded 27% in the period, totaling US$76 million, while Brazilian exports to that country increased 1.8%, closing with US$101 million per day. In that scenario, the trade surplus declined 35.7% in the year, closing at US$26 million per day.

Services

In 2007, the service account registered net outlays of US$13.4 billion, US$3.7 billion more than in the previous year. The trajectory of growing net outlays on services is basically explained by the behavior of international travel, transportation, equipment rentals, royalties and licenses, government services and insurance.

In 2007, both revenues and expenditures on international travel reached their highest values of the historical data series, which began in 1947. Revenues, which have increased since 2002, expanded an additional 14.8% in the year, closing with a total of US$5 billion, while outlays, which have risen since 2004, expanded 42.5% to a level of US$8.2 billion. This account registered net outflows of US$3.3 billion in the year, 125% above the 2006 result. This trajectory was consistent with the evolution of available income and nominal appreciation of the rate of exchange.

The deficit under international travel reflected annual growth of 45.1% in outlays by Brazilian tourists abroad, totaling US$7.7 billion, and 14.9% in spending by foreign tourists in Brazil, with a total of US$4.8 billion. These movements resulted in net expenditures of US$2.9 billion under tourism, 160.9% more than in 2006. Here, it is important to stress that the second half of the year posted a deficit of US$2 billion. The major component of trade flows related to tourism consisted of payments made abroad involving credit card outlays. In this case, net outflows rose 131% during the year, closing at US$2.2 billion. Other spending on tourism posted a deficit of US$504 million, against US$149 million in the previous year. Business travel, which is less sensitive to exchange rate fluctuations and reflects domestic and international economic activity levels, expanded 16.5%, closing with a deficit of US$278 million.

The transportation account posted net outflows of US$4.5 billion in 2007, 44.6% more than in the previous year. This evolution was fully in keeping with trade balance performance and the international travel account. Net outlays on freight expanded 40.4% in 2007, mainly as a result of 51.5% growth under net spending on maritime freight, almost all of which involves shipments of goods.

Table 5.16 – Services

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-4 197	-5 443	-9 640	-6 019	-7 336	-13 355
Credit	9 147	10 329	19 476	11 065	12 830	23 895
Debit	13 344	15 773	29 116	17 083	20 166	37 250
Transportation	-1 380	-1 746	-3 126	-2 191	-2 330	-4 521
Credit	1 613	1 826	3 439	1 912	2 147	4 059
Debit	2 993	3 572	6 565	4 103	4 477	8 580
Travel	-469	-979	-1 448	-1 060	-2 198	-3 258
Credit	2 195	2 121	4 316	2 436	2 517	4 953
Debit	2 664	3 099	5 764	3 496	4 716	8 211
Insurance	-198	-233	-430	-368	-397	-766
Credit	100	225	324	193	349	543
Debit	297	458	755	562	747	1 308
Financial services	-4	-105	-110	108	175	283
Credit	327	424	751	496	594	1 090
Debit	331	530	861	388	419	807
Computer and information	-989	-915	-1 903	-1 066	-1 045	-2 112
Credit	43	58	102	86	75	161
Debit	1 032	973	2 005	1 153	1 120	2 273
Royalties and licence fees	-700	-813	-1 513	-830	-1 110	-1 940
Credit	65	85	150	176	143	319
Debit	765	898	1 664	1 006	1 253	2 259
Operational leasing	-2 352	-2 535	-4 887	-2 741	-3 030	-5 771
Credit	31	46	77	13	18	31
Debit	2 383	2 580	4 964	2 754	3 048	5 802
Government services	-93	-357	-450	-390	-744	-1 134
Credit	733	784	1 517	617	722	1 340
Debit	826	1 141	1 967	1 007	1 466	2 473
Other	1 988	2 239	4 227	2 519	3 343	5 863
Credit	4 039	4 761	8 800	5 134	6 264	11 398
Debit	2 051	2 522	4 573	2 615	2 920	5 536

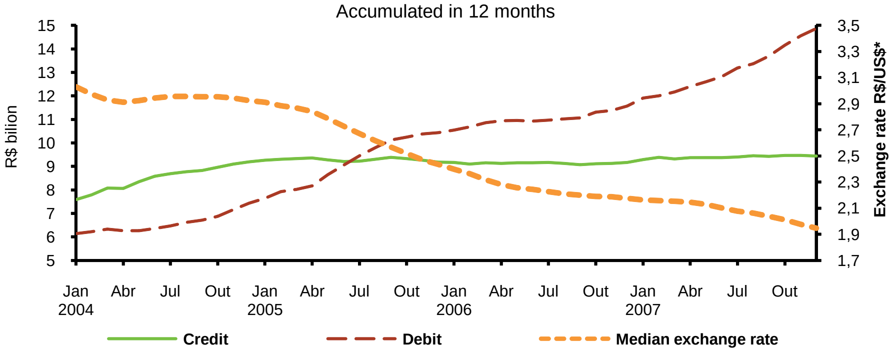
The international flow of travelers indicated annual growth of 28.2% under net outlays on travel tickets, with a total of US$1.9 billion, thus contributing to growth in the transportation account deficit. Revenues on travel tickets increased 26.6% compared to 2006, reaching US$331 million, while spending increased 28% to a level of US$2.2 billion. These results indicated that tourists resident in the country continued to

Table 5.17 – International travel

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Tourism	-290	-810	-1 101	-846	-2 027	-2 873
Credit	2 150	2 068	4 217	2 389	2 458	4 847
Debit	2 440	2 878	5 318	3 235	4 484	7 719
Duty-free shop (net)	120	109	229	104	136	240
Credit card	-356	-600	-956	-797	-1 416	-2 213
Credit	1 109	1 061	2 170	1 234	1 260	2 494
Debit	1 466	1 661	3 128	2 031	2 676	4 707
Tourism services	-97	-128	-225	-140	-255	-395
Credit	148	147	295	178	166	343
Debit	245	275	520	318	420	738
Other	43	-192	-149	-12	-492	-504
Credit	757	741	1 498	873	896	1 769
Debit	714	933	1 646	886	1 388	2 274
Business	-126	-112	-239	-131	-147	-278
Credit	20	23	43	22	26	49
Debit	147	136	282	154	173	327
Education-related	-45	-57	-102	-70	-25	-95
Credit	4	5	9	5	6	11
Debit	49	62	111	76	31	107
Government employees	-15	-2	-17	-15	-6	-22
Credit	8	12	20	8	13	21
Debit	23	14	37	23	19	43
Health-related	8	5	13	3	7	10
Credit	14	12	26	11	14	25
Debit	6	7	13	8	8	15
Total	-469	-979	-1 448	-1 060	-2 198	-3 258
Credit	2 195	2 121	4 316	2 436	2 517	4 953
Debit	2 664	3 099	5 764	3 496	4 716	8 211

Graph 5.10
Tourism
Accumulated in 12 months



* Average monthly rate

utilize more intensely the foreign airlines when traveling abroad. Other items under the transportation account, including freights and airports services, registered net spending of US$1 billion in 2007, for annual growth of 101.1%.

Table 5.18 – Transportation

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 380	-1 746	-3 126	-2 191	-2 330	-4 521
Credit	1 613	1 826	3 439	1 912	2 147	4 059
Debit	2 993	3 572	6 565	4 103	4 477	8 580
Sea transportation	- 597	- 690	-1 286	-1 201	-1 111	-2 312
Credit	1 375	1 523	2 897	1 523	1 771	3 294
Debit	1 971	2 212	4 184	2 724	2 882	5 606
Passenger	- 1	- 1	- 1	- 1	- 1	- 2
Credit	0	0	0	0	0	0
Debit	1	1	1	1	1	2
Freight	- 466	- 610	-1 076	- 639	- 992	-1 631
Credit	459	520	979	546	579	1 124
Debit	925	1 130	2 055	1 185	1 571	2 755
Others	- 130	- 78	- 209	- 562	- 118	- 680
Credit	916	1 003	1 918	977	1 193	2 170
Debit	1 046	1 081	2 127	1 539	1 310	2 849
Air transportation	- 790	-1 054	-1 844	- 979	-1 204	-2 183
Credit	181	244	426	334	308	642
Debit	971	1 298	2 269	1 313	1 512	2 825
Passenger	- 631	- 845	-1 476	- 875	-1 017	-1 892
Credit	99	161	260	174	156	330
Debit	730	1 006	1 736	1 048	1 173	2 222
Freight	- 13	- 40	- 53	55	19	74
Credit	41	36	77	122	118	241
Debit	54	76	130	67	99	166
Others	- 145	- 169	- 314	- 160	- 206	- 366
Credit	42	47	89	38	34	72
Debit	187	216	403	198	239	437
Other transportation[1/]	7	- 2	4	- 10	- 16	- 26
Credit	57	58	116	56	67	123
Debit	51	61	112	66	83	149
Passenger	1	0	1	1	0	1
Credit	1	0	1	1	0	1
Debit	0	0	0	0	0	0
Freight	1	- 7	- 7	- 15	- 23	- 38
Credit	51	53	104	49	59	108
Debit	50	61	111	64	82	146
Others	5	4	10	5	7	12
Credit	6	5	10	7	8	15
Debit	0	0	1	2	1	3

1/ Includes road transportation.

The heading of equipment rentals registered net remittances of US$5.8 billion in 2007, against US$4.9 billion in the previous year. Growth of 16.9% in gross remittances is to some extent a result of increasing in-country utilization of capital goods belonging to nonresidents, with positive reflections on the productive capacity level of the economy.

Net payments of royalties and licenses abroad, a heading that includes such services as technology supply, copyrights, licenses and registration and use of trademarks, patents and franchises, among other things, totaled US$1.9 billion in 2007, with annual growth of 28.2%, for expansion of 35.8% under remittances and 112.5% under still incipient revenues.

Government services registered net outlays of US$1.1 billion in 2007. Growth of 151.9% compared to the previous year reflected a 25.7% rise in Brazilian government spending abroad, which totaled US$2.5 billion, coupled with a reduction of 11.7% in foreign government spending in Brazil, which closed at US$1.3 billion.

Insurance services posted net outflows of US$766 million, against US$430 million in 2006. Revenues increased 67.3% in the year, coming to US$543 million. This behavior was a consequence of growth in direct insurance operations, which exclude freight and life insurance, while outlays increased 73.4%.

Net revenues on financial services totaled US$282 million in 2007, compared to net spending of US$110 million in the previous year. This result indicated 45.1% growth under revenues, which totaled US$1.1 billion, coupled with a 6.2% decline under outlays, totaling US$807 million.

Net spending on computer and information services added up to US$2.1 billion, against US$1.9 billion in 2006, as revenues reached US$161 million and spending totaled US$2.3 billion.

The item other services generated net revenues of US$5.9 billion in 2007, representing growth of 38.7% compared to the previous year. In this grouping, specialized technical services posted net revenues of US$2.1 billion, against US$1.6 billion in 2006. Net outlays on personal services, cultural services and leisure reached US$578 million, an increase of 27.9%. Aside from this, the communications account posted net revenues of US$180 million, against US$104 million in the previous year, as revenues moved from US$205 million to US$276 million and spending dropped 5.8% to a level of US$96 million.

Table 5.19 – Other services

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 988	2 239	4 227	2 519	3 343	5 863
Credit	4 039	4 761	8 800	5 134	6 264	11 398
Debit	2 051	2 522	4 573	2 615	2 920	5 536
Communication	68	36	104	40	139	180
Credit	109	96	205	87	188	276
Debit	41	60	102	47	49	96
Construction	14	5	18	5	7	12
Credit	14	8	23	6	11	17
Debit	1	4	4	1	4	4
Merchanting and trade-related	-28	28	1	26	-7	18
Credit	409	558	967	471	485	956
Debit	437	530	967	445	493	938
Personal, cultural and recreational	-247	-205	-452	-272	-306	-578
Credit	31	50	81	34	39	73
Debit	278	255	533	306	345	651
Misc. business, prof.and technical	2 181	2 375	4 556	2 719	3 510	6 229
Credit	3 476	4 048	7 524	4 536	5 541	10 077
Technical services	1 655	1 841	3 496	2 031	2 573	4 604
Other	1 820	2 207	4 028	2 505	2 968	5 472
Debit	1 294	1 673	2 967	1 817	2 030	3 847
Technical services	804	1 077	1 881	1 161	1 326	2 487
Other	490	596	1 086	656	705	1 361

Income

The income account deficit totaled US$29.2 billion in 2007, for a 16.4% increase in comparison to the previous year. As in 2006, it was strongly impacted by net outflows related to direct investments. In addition, as a consequence of reductions in external indebtedness, net remittances of profits and dividends once again surpassed net outlays on interest, reflecting the predominance of overall foreign direct and portfolio investments in the country, compared to outstanding external indebtedness in the external liabilities profile.

Net remittances of profits and dividends added up to a total of US$22.4 billion in 2007, against US$16.4 billion in the previous year. Basically, the annual increase of 37.1% reflected growth in the stock of external investments in Brazil, greater corporate profitability and appreciation of the real.

Net interest outlays dropped from US$11.3 billion in 2006 to US$7.3 billion, the lowest level since 1994. The annual reduction of 35.7% in these outlays reflected a substantial

92.2% increase in interest revenues, a figure that is fully compatible with the increase in Brazilian assets abroad, mainly international reserves. Interest outlays increased 4.2%, reflecting anticipated payments of interest and growth in private sector funding operations, normally at rates higher than those contracted by the public sector.

Table 5.20 – Income

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-14 599	-12 881	-27 480	-14 062	-15 179	-29 242
Credit	3 623	2 839	6 462	5 002	6 491	11 493
Debit	18 222	15 720	33 942	19 064	21 670	40 734
Compensation of employees	95	82	177	233	215	448
Credit	192	205	397	257	240	497
Debit	97	123	220	24	25	49
Investment income	-14 695	-12 963	-27 657	-14 296	-15 394	-29 690
Credit	3 431	2 634	6 064	4 745	6 251	10 996
Debit	18 125	15 596	33 722	19 041	21 645	40 686
Direct investment income	-6 116	-6 711	-12 826	-7 123	-10 367	-17 489
Credit	885	188	1 073	1 210	993	2 202
Debit	7 000	6 899	13 899	8 332	11 359	19 692
Profits and dividends	-5 440	-6 006	-11 445	-6 540	-10 206	-16 745
Credit	795	133	928	995	157	1 152
Debit	6 235	6 138	12 373	7 535	10 363	17 898
Interests on intercompany loans	-676	-705	-1 381	-583	-161	-744
Credit	89	55	145	215	836	1 050
Debit	765	761	1 526	798	996	1 794
Portfolio investment income	-6 826	-4 202	-11 028	-4 709	-2 356	-7 065
Credit	1 644	1 429	3 073	2 563	4 392	6 955
Debit	8 469	5 631	14 101	7 272	6 748	14 020
Income on equity (dividends)	-3 425	-1 499	-4 924	-3 268	-2 422	-5 689
Credit	16	5	21	5	8	13
Debit	3 441	1 504	4 945	3 272	2 430	5 702
Income on debt securities (interests)	-3 401	-2 703	-6 104	-1 441	66	-1 376
Credit	1 627	1 424	3 052	2 558	4 384	6 942
Debit	5 029	4 128	9 156	3 999	4 319	8 318
Other investments income[1/]	-1 753	-2 050	-3 803	-2 464	-2 671	-5 135
Credit	902	1 016	1 919	973	866	1 839
Debit	2 655	3 066	5 721	3 437	3 538	6 974
Memo:						
Interest	-5 831	-5 458	-11 289	-4 489	-2 766	-7 255
Credit	2 619	2 496	5 115	3 745	6 086	9 831
Debit	8 450	7 954	16 404	8 234	8 852	17 086
Profits and dividends	-8 864	-7 505	-16 369	-9 807	-12 628	-22 435
Credit	812	138	949	1 000	165	1 165
Debit	9 676	7 642	17 318	10 807	12 793	23 600

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

The wage and earnings account generated net receptions of US$448 million in 2007, against US$177 million in the previous year. Income paid to workers domiciled in the country added up to US$497 million, reflecting a 25.1% increase in the year, while payments to nonresidents dropped 77.9%, totaling US$49 million.

When broken down, net remittances of income on direct investments totaled US$17.5 billion, up 36.4% over 2006. In this case, net outlays of profits and dividends reached US$16.7 billion, with annual growth of 46.3%. This figure was compatible with the larger stock of direct external investments and maturation of those investments. Net remittances involving interest on intercompany loans dropped 46.1% in the year, falling to a level of US$744 million, impacted by a substantial increase in revenues from US$145 million to US$1.1 billion.

Net remittances of income on portfolio investments totaled US$7.1 billion, a 35.9% drop compared to 2006. This result reflected a drop of 77.5% under net interest outlays on fixed income securities, totaling US$1.4 billion. Net remittances of profits and dividends on funds channeled into investment portfolios, an item of particular importance to the result of this heading, totaled US$5.7 billion, up 15.6%. Distribution of profits and dividends on stock in Brazilian companies is important, particularly with regard to 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$5.1 billion in 2007, reflecting an increase of 35% compared to the previous year. Revenues dropped 4.1% to a level of US$1.8 billion, while expenditures expanded 21.9% and closed at US$7 billion.

Companies from the industrial sector were responsible for 61.1% of gross profit and dividend remittances, while the service sector accounted for 36.5%. In sectoral terms, remittances were characterized by considerable dispersion particularly those associated to the segments of automotive vehicle manufacturing and assembly, 16.2% of total gross remittances; metallurgy, 11.4%; financial intermediation, 10.8%; and electricity, gas and other utilities, 7.4%.

Current unilateral transfers

Interrupting the growth trajectory that began in 2000, net unilateral transfers dropped 6.4% in 2007, posting inflows of US$4 billion, against US$4.3 billion in 2006. This result was impacted by exchange rate appreciation and growth in expenditures. Gross revenues classified as support of residents declined 2.8% in the year and totaled US$2.8 billion, partly as a consequence of the crisis in the United States economy. The major countries of origin of amounts sent from abroad for purposes of providing support to residents in Brazil were the United States, with 48.3% of total, and Japan, with 23%.

Table 5.21 – Current unrequited transfers

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	2 036	2 270	4 306	1 944	2 085	4 029
Credit	2 279	2 568	4 847	2 358	2 613	4 972
Debit	243	298	541	415	528	943
General government transfers	-3	-31	-34	12	-3	10
Credit	40	46	86	66	73	139
Debit	43	77	120	54	75	129
Other sectors transfers	2 040	2 301	4 341	1 931	2 088	4 019
Credit	2 239	2 522	4 761	2 292	2 541	4 833
Debit	200	221	421	361	452	813
Workers' remittances	1 259	1 321	2 581	1 197	1 097	2 295
Credit	1 402	1 488	2 890	1 404	1 405	2 809
United States	698	716	1 415	676	679	1 355
Japan	324	325	649	324	323	647
Remaining countries	380	447	826	404	402	806
Debit	143	167	309	207	307	514
Other transfers	780	980	1 760	734	991	1 725
Credit	837	1 034	1 872	888	1 136	2 024
Debit	57	54	111	154	145	299

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

US$ million

Period		Balance of current transactions			Foreign direct investments			External financing requirements		
		Value		% GDP	Value		% GDP	Value		% GDP
		Monthly	Last 12 months	Last 12 months	Monthly	Last 12 months	Last 12 months	Monthly	Last 12 months	Last 12 months
2002	Dec	-84	-7 637	-1,66	1 503	16 590	3,61	-1 419	-8 954	-1,95
2003	Dec	343	4 177	0,82	1 409	10 144	2,00	-1 752	-14 321	-2,83
2004	Dec	1 207	11 738	1,94	3 150	18 166	3,01	-4 357	-29 903	-4,95
2005	Dec	530	13 985	1,76	1 406	15 066	1,89	-1 936	-29 051	-3,65
2006	Jan	-314	12 874	1,44	1 474	15 337	1,71	-1 161	-28 212	-3,15
	Feb	627	13 371	1,47	854	15 347	1,68	-1 481	-28 718	-3,15
	Mar	1 311	12 952	1,39	1 658	15 610	1,68	-2 969	-28 562	-3,08
	Apr	133	12 370	1,31	785	13 358	1,42	-918	-25 728	-2,73
	May	383	12 160	1,27	1 577	14 226	1,48	-1 960	-26 387	-2,75
	Jun	632	11 509	1,18	1 032	13 933	1,43	-1 665	-25 442	-2,62
	Jul	3 068	12 037	1,22	1 586	13 490	1,36	-4 654	-25 528	-2,58
	Aug	2 184	13 450	1,33	1 256	13 656	1,35	-3 440	-27 107	-2,69
	Sep	2 249	13 340	1,30	1 752	15 377	1,50	-4 001	-28 718	-2,81
	Oct	1 536	14 032	1,35	1 722	16 276	1,57	-3 258	-30 308	-2,92
	Nov	1 393	13 734	1,30	2 667	17 771	1,68	-4 061	-31 505	-2,98
	Dec	438	13 643	1,27	2 457	18 822	1,76	-2 896	-32 465	-3,03
2007	Jan	-369	13 587	1,25	2 422	19 770	1,81	-2 053	-33 357	-3,06
	Feb	376	13 336	1,21	1 378	20 293	1,83	-1 754	-33 629	-3,04
	Mar	235	12 259	1,09	2 766	21 401	1,90	-3 001	-33 661	-2,99
	Apr	1 806	13 932	1,22	3 471	24 087	2,10	-5 277	-38 020	-3,32
	May	-151	13 398	1,15	497	23 007	1,97	-346	-36 406	-3,12
	Jun	541	13 307	1,12	10 318	32 293	2,72	-10 859	-45 601	-3,85
	Jul	-823	9 416	0,78	3 613	34 321	2,85	-2 790	-43 737	-3,63
	Aug	1 291	8 523	0,70	1 979	35 044	2,86	-3 270	-43 567	-3,56
	Sep	411	6 684	0,54	1 537	34 828	2,79	-1 948	-41 513	-3,33
	Oct	-152	4 996	0,39	3 188	36 294	2,86	-3 035	-41 290	-3,25
	Nov	-1 305	2 297	0,18	2 530	36 156	2,80	-1 225	-38 454	-2,97
	Dec	-398	1 461	0,11	886	34 585	2,63	-487	-36 046	-2,74

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

Financial account

Overall global investment flows reveal a process of growth in the activities of Brazilian companies on foreign markets, coupled with Brazil's attractiveness to international investors. Consequently, the financial account has gone through significant alterations in recent years, with important shifts in the makeup of external assets.

The uncertainties that predominated on financial markets in the second half of 2007, mainly as a result of the impact of the subprime crisis on confidence in other complex financial structures, with additional cutbacks in liquidity and increased volatility in the prices of a wide variety of debt markets, generated highly negative repercussions on the real sector of the major mature economies, particularly that of the United States. Even in this scenario, positive conditions in relation to Brazilian balance of payments financing kept unchanged.

The country's attractiveness for foreign direct investments and other types of loans and financing persisted, as international markets showed high levels of receptivity to bond placements at more favorable rates. In this context, rolling of the medium and long-term private sector external debt reached 109%, a rate that reflects new disbursements viewed against amortizations that have already occurred.

Table 5.23 – Private sector rollover rate[1/]

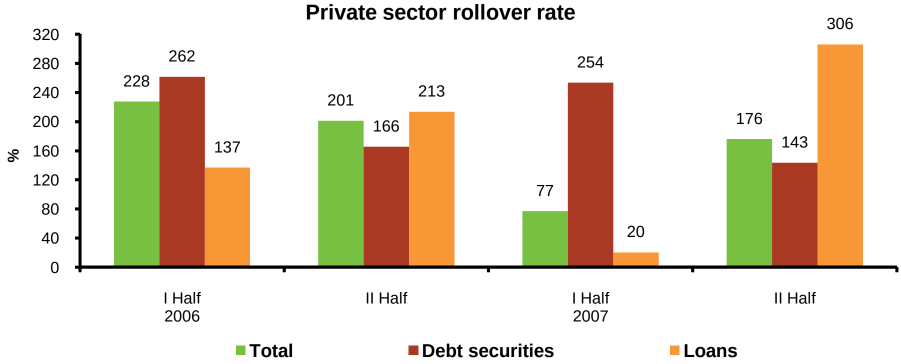
US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total (a/b)	228%	201%	207%	77%	176%	109%
Credit (a)	6 224	21 038	27 262	9 970	10 921	20 891
Debit	3 429	10 479	13 908	13 450	6 364	19 815
Paid (b)	2 734	10 467	13 201	12 910	6 201	19 110
FDI conversions	695	12	707	541	164	704
Bonds, notes and commercial papers (a/b)	262%	166%	206%	254%	143%	186%
Credit (a)	5 204	4 504	9 708	7 979	7 104	15 083
Debit	2 671	2 723	5 394	3 680	5 117	8 798
Paid (b)	1 989	2 718	4 706	3 145	4 954	8 099
FDI conversions	683	5	688	536	164	699
Direct loans (a/b)	137%	213%	207%	20%	306%	53%
Credit (a)	1 020	16 534	17 554	1 991	3 817	5 809
Debit	757	7 756	8 514	9 770	1 247	11 017
Paid (b)	745	7 750	8 495	9 765	1 247	11 012
FDI conversions	12	7	19	5	0	5

1/ Loans of long-term

The balance of payments financial account showed record level net inflows of US$88.4 billion in 2007, against US$15.4 billion in the previous year, due to high levels of investment profitability and a significant drop in country risk. In the year, direct investments registered net inflows of US$27.5 billion, while portfolio investments and other investments generated net disbursements of US$48.4 billion and US$13.2 billion, respectively.

Graph 5.11
Private sector rollover rate



Note: excludes debt-equity swap.

According to estimates presented by the United Nations Conference on Trade and Development (Unctad), the annual flow of Foreign Direct Investments (FDI) in the global economy set a new record in 2007, with US$1.5 trillion, a 17.8% increase over the previous year and the fourth consecutive positive annual result. FDI flows registered across-the-board growth in comparison to all groups of countries, expanding by 16.8%, when one considers only the developed countries, which absorbed US$1 trillion of the annual flow, and 19.5% when viewed against developing and transition countries, which received US$536 million.

Table 5.24 – Foreign direct investments

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	7 381	11 441	18 822	20 852	13 733	34 585
Credit	14 170	18 230	32 399	27 124	23 108	50 233
Debit	6 789	6 789	13 577	6 272	9 376	15 648
Equity capital	5 405	9 968	15 373	15 168	10 907	26 074
Credit	9 610	13 159	22 769	18 615	15 719	34 335
Currency	8 046	12 479	20 525	17 340	14 367	31 707
Autonomous	8 046	12 248	20 295	17 340	14 367	31 707
Privatization	0	230	230	0	0	0
Conversions	1 559	675	2 234	1 263	1 339	2 602
Autonomous	1 559	675	2 234	1 263	1 339	2 602
Privatization	0	0	0	0	0	0
Merchandise	4	5	9	12	14	26
Debit	4 205	3 191	7 396	3 448	4 813	8 260
Intercompany loans	1 976	1 473	3 450	5 684	2 826	8 510
Credit	4 560	5 071	9 631	8 509	7 389	15 898
Debit	2 584	3 598	6 181	2 824	4 563	7 387
Of which conversions	349	454	803	529	890	1 419
Memo:						
Net conversions contribuion fo FDI	1 210	221	1 431	733	450	1 183
Total disbursements through conversions	1 559	675	2 234	1 263	1 339	2 602
Amortization of intercompany loans conversions	349	454	803	529	890	1 419

Table 5.25 – Foreign direct investments inflows – Equity capital

Distribution by country

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	9 548	13 159	22 706	18 615	15 719	34 335
Netherlands	1 065	2 441	3 506	6 576	1 553	8 129
United States	2 346	2 176	4 522	3 262	2 811	6 073
Luxembourg	596	150	746	650	2 207	2 857
Spain	715	848	1 564	1 406	796	2 202
Germany	204	663	867	1 226	575	1 801
Cayman Islands	1 278	697	1 974	1 228	376	1 604
Bermudas	226	289	515	299	1 199	1 497
France	342	421	763	271	962	1 233
United Kingdom	88	338	426	371	682	1 053
Switzerland	391	1 268	1 659	287	618	905
Canada	805	483	1 287	380	439	819
Chile	11	15	27	8	709	717
Bahamas	21	44	65	211	391	603
Portugal	226	121	347	201	316	517
Japan	228	431	660	191	310	501
Australia	22	95	117	227	267	494
Mexico	6	775	782	340	69	409
British Virgin Islands	127	159	286	143	228	371
Italy	152	102	254	193	119	313
Norway	81	288	369	200	84	284
South Korea	42	68	110	145	120	265
Uruguay	142	96	237	77	135	212
Colombia	1	231	232	162	6	167
Panama	48	92	140	54	88	141
Denmark	56	41	97	72	50	122
Austria	8	8	16	18	98	116
Belgium	8	270	278	72	19	91
Finland	8	1	9	6	82	88
Argentina	39	87	126	31	39	70
Ireland	31	6	37	6	58	64
Sweden	13	7	20	56	8	64
Netherlands Antilles	2	0	2	21	9	29
Singapore	9	70	79	5	19	24
Hong Kong	82	19	101	8	6	13
Costa Rica	0	212	212	0	0	0
Other countries	130	145	275	214	274	488

Table 5.26 – Foreign direct investments inflows – Equity capital[1/]

Distribution by sector

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	9 548	13 159	22 706	18 615	15 720	34 335
Crop, livestock and mineral extraction	667	875	1 542	1 108	3 643	4 751
Metallic mineral extraction and related services	288	306	595	639	2 610	3 249
Oil extraction and related services	283	250	532	336	556	892
Crop, livestock and related services	83	93	176	118	185	303
Others	13	225	239	16	291	307
Industry	3 616	4 846	8 462	7 518	5 963	13 481
Basic metallurgy	904	809	1 713	3 479	1 220	4 699
Foodstuff	141	384	525	341	1 411	1 752
Coke, oil derivatives and biofuels	16	244	260	494	1 149	1 644
Chemical products	378	559	936	1 242	136	1 378
Manufacturing and assembly of automotive engines	225	65	290	436	425	861
Plastic and rubber products	157	61	219	225	269	494
Pulp, paper and paper products	77	1 542	1 619	337	140	477
Nonmetallic mineral products	108	43	152	161	294	454
Machinery and equipments	232	126	357	136	293	428
Electrical machines, devices and apparatuses	31	239	270	237	148	385
Pharmaceuticals	75	115	191	48	113	160
Computer equipment, electronic and optical products	199	95	294	80	79	159
Sundry	19	7	27	35	88	124
Textile products	627	22	649	64	26	90
Other industries	427	534	962	204	172	376
Services	5 264	7 438	12 702	9 989	6 114	16 103
Financial and auxiliary services	1 045	1 947	2 993	3 073	1 450	4 524
Commerce, except vehicles	751	776	1 527	1 669	1 090	2 759
Headquarter consulting and management activities	112	52	164	1 471	136	1 607
Buildings	536	76	613	621	618	1 240
Electricity and gas	1 143	1 188	2 332	574	482	1 055
Real estate	423	468	890	361	461	822
Telecommunication	269	945	1 214	444	108	551
Insurance and pension funds	116	136	252	180	336	516
Transportation	9	154	163	270	118	387
Nonfinancial holdings	173	265	438	250	126	376
Information technology services	57	85	141	106	85	191
Office services and administrative support	37	144	181	57	107	164
Architectural and engineering services	30	173	203	85	46	132
Storage and transportation auxiliary activities	68	71	140	86	35	121
Infrastructure works	23	191	213	32	89	121
Other services	471	766	1 237	711	826	1 537

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

2/ Includes siderurgy.

3/ Includes the industry of spare parts for the automotive sector.

4/ Includes infrastructure works related to the energy and telecommunications sectors.

5/ Includes internet.

Following a long period of relative stagnation, FDI flows toward Latin America and the Caribbean recovered and set a new record of US$125.8 billion in 2007. The highlights were FDI increases in new projects and in productive capacity, compared to the standard observed in developed countries where FDI growth was led primarily by mergers and corporate acquisitions. For the most part, this situation reflected a renewed upturn of sustained growth in Latin America and the Caribbean in recent years. Flows remained unequally distributed, being concentrated in just a few countries of destination. In this context, while flows targeted to the region expanded 50.1%, those channeled to Asia and Africa increased just 6.6% and 0.3%, respectively.

Accompanying the pace of FDI growth in Latin America, flows to Brazil set a record of US$34.6 billion, an increase of 83.7% compared to 2006. This result even surpassed the high levels of inflows registered in the period from 1998 to 2001, when such flows benefited from the privatization program. This evolution is evident in the increase in the stock of foreign direct investments, which totaled US$328.5 billion in 2007.

Of total net inflows in 2007, participation in the capital of companies in the country reached US$26.1 billion, including US$2.6 billion in external debt/investment conversion operations. It should be stressed that, of these conversions, US$1.4 billion originated in amortizations of intercompany loans, already included in total foreign direct investments. In this way, the net contribution of conversions to investments closed at US$1.2 billion. Intercompany loans registered net inflows of US$8.5 billion, as against US$3.5 billion in 2006.

In the modality of capital participation, inflows of foreign direct investment originating in the Netherlands, the major foreign investor in the country, totaled US$8.1 billion in 2007, 23.7% of the total. Other significant investments originated in the United States, US$6.1 billion, 17.7% of total; Luxembourg, US$2.9 billion, 8.3%; and Spain, with US$22.2 billion, 6.4%.

Inflows of FDI targeted to the three sectors of activity registered significant growth in 2007. The service sector, despite declining participation, was still the major target of these flows, absorbing US$16.1 billion, representing 46.9% of the year’s total and 26.8% growth compared to 2006. The largest growth rates occurred in the segments of financial services, commerce, consultancy, construction, insurance and transportation, while the sharpest declines were registered under inflows to the sectors of electricity, gas and other utilities and telecommunications. FDI channeled to the industrial sector expanded 59.3% in the year, totaling US$13.5 billion, highlighting expansion registered in the segments of coke, oil derivatives and biofuels, food products, nonmetallic mineral products, automotive vehicles, metallurgy, rubber goods and plastics. Inflows targeted to the cellulose and paper, textiles, informatics equipment and pharmochemical and pharmaceutical product industries closed with the sharpest declines. FDI flows to crop farming, livestock and mining, which expanded 208.1% compared to 2006, closing at

Table 5.27 – Portfolio investments – Liabilities

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-1 728	10 804	9 076	24 179	23 925	48 104
Credit	52 259	47 108	99 367	87 058	122 869	209 927
Debit	53 987	36 304	90 291	62 879	98 944	161 823
Equities	4 141	3 575	7 716	7 584	18 634	26 217
Credit	26 886	24 401	51 287	46 348	73 075	119 424
Debit	22 745	20 826	43 571	38 765	54 442	93 206
Issued in the country	2 334	3 525	5 859	6 239	18 374	24 613
Credit	24 600	23 911	48 511	44 545	72 036	116 581
Debit	22 266	20 386	42 652	38 307	53 662	91 968
Issued abroad (Annex V – ADR)	1 807	50	1 857	1 345	259	1 604
Credit	2 286	490	2 776	1 803	1 040	2 842
Debit	480	440	919	458	780	1 238
Debt securities	-5 869	7 229	1 360	16 595	5 291	21 887
Credit	25 373	22 707	48 080	40 710	49 793	90 503
Debit	31 242	15 478	46 720	24 114	44 502	68 616
Issued in the country	6 066	4 976	11 042	12 512	7 970	20 482
Medium and long term	3 941	3 031	6 971	8 232	5 317	13 548
Credit	10 121	7 655	17 776	15 961	25 026	40 987
Debit	6 180	4 625	10 805	7 729	19 709	27 439
Short term	2 125	1 945	4 070	4 280	2 653	6 933
Credit	5 881	4 519	10 400	8 299	12 038	20 337
Debit	3 756	2 574	6 330	4 018	9 385	13 403
Issued abroad	-11 935	2 253	-9 682	4 083	-2 678	1 405
Bonds	-13 304	81	-13 223	-3 435	-4 445	-7 880
Private	0	25	25	-100	-3	-103
Disbursements	0	125	125	0	0	0
Amortizations	0	100	100	100	3	103
Public	-13 304	56	-13 248	-3 335	-4 442	-7 777
Disbursements	2 060	3 390	5 450	2 883	0	2 883
New issues	1 862	2 890	4 752	2 883	0	2 883
Bond swaps	198	500	698	0	0	0
Amortizations	15 364	3 334	18 698	6 218	4 442	10 660
Paid	15 166	2 601	17 767	6 218	4 442	10 660
Face value	14 257	2 337	16 594	5 179	3 970	9 149
Discounts	-909	-263	-1 172	-1 039	-472	-1 512
Bond swaps	198	733	931	0	0	0
Notes and commercial papers	1 768	1 682	3 450	4 380	1 254	5 633
Disbursements	5 504	4 739	10 244	8 330	7 104	15 434
Amortizations	3 737	3 057	6 794	3 950	5 850	9 801
Money market instruments	-399	490	91	3 138	513	3 651
Disbursements	1 806	2 278	4 084	5 237	5 625	10 862
Amortizations	2 205	1 788	3 993	2 099	5 112	7 211

US$4.8 billion, were concentrated under mining of mineral ores, with participation of 9.5% in total 2007 inflows.

The segment of foreign portfolio investments showed significant improvement in 2007, compared to the previous year. Capital flows, driven by the pursuit of profitability, totaled US$48.1 billion in net inflows, against US$9.1 billion in 2006, as a result of 111.3% growth under inflows and 79.2% under remittances. The behavior of flows broken down by financial instrument varied widely over the course of 12 months. Impacted by financial market liquidity, stock market flows, which had risen sharply in 2005 and 2006, were quite active in 2007, when stock prices in the emerging markets reached very high levels. In 2007, net disbursements of these investments added up to US$26.2 billion, against US$7.7 billion in 2006, with revenues rising 132.9% to a level of US$119.4 billion, and spending increasing 113.9%, to US$93.2 billion.

The result for this segment reflected acceleration in net inflows of foreign investments in stocks traded in the country, which accounted for 93.9% of net inflows of foreign stock investments. In 2007, these inflows added up to US$24.6 billion, against US$5.9 billion in the previous year, with intensification of operations in the second half of the year. In that period, the results were 194.5% above the net amounts for the first half of the year. ADR placements, which correspond to less significant amounts, registered net inflows of US$1.6 billion, as against US$1.9 billion in 2006.

Foreign investments in fixed income securities, which registered their strongest flows in the first half of the year, closed 2007 with net disbursements of US$21.9 billion, against US$1.4 billion in the previous year. The amounts negotiated reached unprecedented highs, with US$90.5 billion in inflows and US$68.6 billion in remittances, revealing increases of 88.2% and 46.9% against 2006. The net amounts of operations carried out in the second half of the year were 68.1% below those of the first six months of the year.

Foreign investments in fixed income securities negotiated in the country registered sharp disbursements, accumulating net inflows of US$20.5 billion, compared to US$11 billion in 2006, of which US$12.5 billion were registered in the first half of the year.

Capital flows referring to sovereign bonds registered net outflows of US$7.8 billion in 2007, as a result not only of the original maturity schedule but, above all, anticipated redemptions of debt (buyback program, public offers and implementation of prepayment clauses). From the point of view of new issuances, emphasis should be given to total disbursements, US$2.9 billion, resulting from issue of the Global BRL 28 bond, US$1.9 billion, including reopening, and reopening of the Global 17, US$525 million, and the Global 37, US$500 million.

Operations with notes and commercial papers showed net inflows of US$5.6 billion, against US$3.5 billion in 2006. Short-term securities showed net disbursements of US$3.7 billion in 2007, against US$91 million in the previous year. Inflows expanded 166% and outflows increased 80.6%.

Table 5.28 – Other foreign investments

US$ million

Itemization	2006			2007		
	1º sem	2º sem	Ano	1º sem	2º sem	Ano
Total	7 083	17 021	24 104	31 493	431	31 923
Trade credit	8 369	4 420	12 789	17 213	298	17 511
Long term	-345	-496	-841	-323	456	133
Credit	417	395	812	434	1 184	1 618
Debit	762	890	1 653	756	728	1 484
Short term (net)	8 714	4 916	13 630	17 536	-158	17 378
Loans	-2 292	12 143	9 851	13 638	156	13 794
Monetary authority	-69	-69	-138	-69	-69	-138
Exceptional financing	0	0	0	0	0	0
Loans from the IMF	0	0	0	0	0	0
Credit	0	0	0	0	0	0
Debit	0	0	0	0	0	0
Other long term	-69	-69	-138	-69	-69	-138
Credit	0	0	0	0	0	0
Debit	69	69	138	69	69	138
Remaining sectors	-2 223	12 213	9 990	13 707	225	13 933
Long term	932	9 574	10 505	-8 071	8 234	163
Credit	7 345	19 905	27 250	4 048	12 028	16 076
Multilateral[1/]	3 608	1 492	5 100	957	1 998	2 955
Agencies	752	717	1 469	266	553	819
Buyers credit	1 001	1 116	2 117	774	5 510	6 284
Direct loans	1 985	16 579	18 564	2 050	3 968	6 018
Debit	6 414	10 331	16 745	12 119	3 794	15 914
Multilateral[1/]	1 069	1 081	2 150	998	955	1 953
Agencies	3 131	339	3 470	269	246	515
Buyers credit	1 257	1 056	2 313	645	776	1 420
Direct loans	957	7 855	8 812	10 208	1 817	12 025
Short term	-3 154	2 639	-516	21 778	-8 008	13 770
Currency and deposits	1 002	456	1 458	629	-22	607
Outher liabilities	4	1	5	13	-1	11
Long term (net)	0	0	0	0	0	0
Short term (net)	4	1	5	13	-1	11

1/ Includes IFC.

Other foreign investments posted net inflows of US$31.9 billion, against US$24.1 billion in 2006, as a result of expanded short-term operations, including both trade credits and loans. Consequently, at the same time in which the medium and long-term external debts remained practically stable since the end of 2006, the short-term debt rose sharply over the course of 2007. Suppliers' trade credits posted overall disbursements of US$17.5 billion against US$12.8 billion in 2006. Here, long-term credits posted net inflows of US$133 billion, while short-term credits posted inflows of US$17.4 billion, compared to US$13.6 billion in 2006.

Medium and long-term loans and financing of other sectors totaled net inflows of US$163 million, while short-term operations posted net disbursements of US$13.8 billion, against net amortizations of US$516 million in 2006. The long-term loan operations of other sectors were concentrated under buyers' credits, with net disbursements of US$4.9 billion; organizations, US$1 billion; and agencies, US$304 million. Parallel to this, net amortizations of direct loans totaled US$6 billion occurred, against net disbursements of US$9.8 billion in the previous year. Net inflows of resources from nonresidents maintained in the country in the form of deposits and currencies totaled US$607 million, against US$1.5 billion in the previous year.

Table 5.29 – Brazilian direct investments abroad

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-4 502	-23 700	-28 202	3 426	-10 493	-7 067
Credit	501	628	1 129	10 442	12 055	22 497
Debit	5 003	24 328	29 331	7 016	22 547	29 563
Equity capital	-4 525	-18 889	-23 413	-4 620	-5 471	-10 091
Credit	390	613	1 002	658	1 386	2 044
Debit	4 915	19 501	24 416	5 279	6 856	12 135
Intercompany loans	23	-4 812	-4 789	8 046	-5 022	3 025
Credit	111	15	126	9 784	10 669	20 453
Debit	88	4 827	4 915	1 737	15 691	17 428

Table 5.30 – Brazilian portfolio investments abroad

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	1 034	-1 029	6	-52	338	286
Credit	3 857	2 167	6 024	2 328	3 408	5 736
Debit	2 823	3 195	6 018	2 380	3 070	5 449
Equity investment	-387	-529	-915	-686	-727	-1 413
Credit	160	247	406	163	399	562
Debit	546	775	1 322	849	1 127	1 976
Brazilian Depositary Receipts (BDR)	-291	-323	-614	-452	-784	-1 235
Credit	3	3	6	10	1	12
Debit	294	326	620	462	785	1 247
Other equities	-96	-205	-301	-234	56	-178
Credit	156	244	400	152	398	550
Debit	252	449	701	387	342	728
Debt securities	1 421	-500	921	634	1 065	1 699
Credit	3 698	1 920	5 618	2 165	3 008	5 173
Debit	2 277	2 420	4 697	1 531	1 943	3 474

Favorable conditions for financing the external accounts can be understood as a requirement for internationalization of Brazilian companies, which allow them to expand scale and play an important role in the world market, thus increasing the level of amounts registered in Brazilian investment accounts abroad. This evolution is more evident in the increase in the stock of Brazilian direct investments abroad, which totaled US$129.8 billion in 2007.

Table 5.31 – Other Brazilian investments abroad

US$ million

Itemization	2006			2007		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	-3 929	-4 486	-8 416	-19 330	607	-18 723
Loans	-1 983	-3 032	-5 015	-15	-1 759	-1 773
Long term	-2 096	-2 883	-4 979	74	-1 665	-1 590
Credit	788	725	1 513	2 109	789	2 898
Debit	2 884	3 608	6 492	2 035	2 453	4 489
Short term (net)	113	-149	-35	-89	-94	-183
Currency and deposits	-1 698	-1 045	-2 743	-18 890	2 607	-16 283
Banks	-703	-531	-1 234	-9 974	-738	-10 712
Remaining domestic sectors	-995	-514	-1 509	-8 916	3 345	-5 571
Other	-995	-514	-1 509	-8 916	3 345	-5 571
Other assets	-248	-410	-658	-425	-241	-666
Long term	-51	-147	-198	-205	-54	-260
Credit	3	0	4	236	86	322
Debit	54	147	201	441	140	581
Short term (net)	-197	-262	-460	-219	-187	-406

Direct Brazilian investments abroad showed net investments of US$7.1 billion, against US$28.2 billion in 2006, when, for the first time, direct Brazilian investments surpassed foreign direct investments, both being expressed in net values. In 2007, US$10.1 billion of the total referred to increased participation, net outflows for new Brazilian assets abroad, against US$23.4 billion in 2006. Loans granted by Brazilian companies to associated companies abroad generated net returns of US$3 billion, compared to net investments of US$4.8 billion in 2006.

Brazilian portfolio investments abroad totaled net returns of US$286 million in 2007, compared to US$6 million in the previous year. Net remittances of investments in stocks of foreign companies closed at US$1.4 billion, against US$915 million in 2006. Investments in fixed income securities posted net returns of US$1.7 billion in 2007, compared to US$921 million in the previous year.

Other Brazilian investments abroad registered net outflows of US$18.7 billion, against US$8.4 billion in 2006. For the most part, this evolution resulted from investments in currency and deposits, with US$16.3 billion, of which US$10.7 billion originated

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

US$ million

Itemization	2004	2005	2006	2007
IBRD[2/3/]	-615	-121	1 255	-535
Disbursements	1 524	1 644	2 717	938
Amortizations	1 821	1 424	1 046	947
Interest	317	341	416	526
IBD[3/]	-1 965	-576	710	361
Disbursements	719	1 073	2 388	2 017
Amortizations	2 026	1 106	1 084	1 006
Interest	658	543	594	650
FMI	-5 577	-24 370	-125	-23
Disbursements	-	-	-	-
Amortizations	4 363	23 271	-	-
Interest	1 214	1 099	125	23
Government agencies				
Agencies	-2 314	-1 765	-2 278	50
Disbursements	785	1 219	1 469	819
Amortizations	2 617	2 624	3 470	515
Interest	482	360	277	255
Memo:				
Paris Club	-1 638	-1 090	-2 667	-
Amortizations	1 418	985	2 584	-
Interest	220	105	83	-
Bonds	-5 815	-3 438	-18 727	-12 718
Disbursements	5 928	12 490	5 575	2 883
New inflows	5 928	7 981	4 877	2 883
Refinancing	0	4 509	698	-
Amortizations	6 368	10 282	18 798	10 763
Paid	6 368	5 773	16 694	9 251
Refinanced	0	4 509	2 103	1 512
Interest	5 375	5 645	5 504	4 838
Notes & commercial papers	-9 360	-6 392	-99	2 290
Disbursements	5 085	7 337	10 194	15 434
Amortizations	11 196	10 463	6 769	9 801
Interest	3 249	3 265	3 524	3 343
Intercompany – FDI	-1 431	-1 231	1 884	6 716
Disbursements	5 259	8 018	9 590	15 898
Amortizations	5 683	7 997	6 181	7 387
Interest	1 007	1 253	1 525	1 794
Banks[4/]	-2 817	-2 403	7 614	-3 130
Disbursements	5 227	4 039	20 563	12 302
Amortizations	6 683	5 114	11 125	13 428
Interest	1 361	1 329	1 824	2 004
Loans	866	992	1 481	1 676
Financing	495	337	343	328

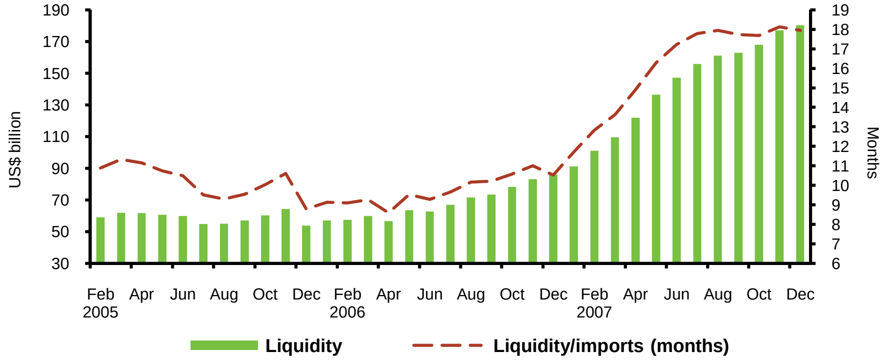
1/ Does not include suppliers.
2/ Includes IFC.
3/ Includes loans and trade financing.
4/ Includes bank loans and buyers' credits.

in banks and US$5.6 billion in other sectors. The balance of long-term loans abroad added up to net remittances of US$1.6 billion, against US$5 billion in 2006. Other assets totaled net remittances of US$666 million, of which US$406 million referred to short-term assets.

International reserves

The steady inflow of external resources over the course of 2007 made it possible for the Central Bank to close the year with net purchases on the domestic exchange market totaling US$78.6 billion. These purchases made a decisive contribution to growth in the international reserve position to a record level of US$180.3 billion at the close of the year, corresponding to growth of US$94.5 billion compared to the previous year.

Graph 5.12
International reserves



External Central Bank operations generated net revenues of US$15.9 billion. Overall disbursements of US$2.9 billion were exclusively a result of bond issuances that can be itemized as follows: Global 17, US$525 million; Global 37, US$500 million; and Global BRL 28, US$1.9 billion.

Amortizations totaled US$140 million, of which US$138 million referred to the Multi-year Deposit Facility Agreement (MYDFA).

During the year, net interest revenues totaled US$6.3 billion, as a result of payments of interest on allocations to the IMF, with US$23 million, and revenues generated by earnings on reserves, US$6.3 billion.

Other operations totaled net revenues of US$6.9 billion, basically as a result of appropriation of gains in bond prices, with US$5.3 billion, and parities, US$1.8 billion.

Table 5.33 – Statement of international reserves growth

US$ million

Itemization	2005	2006	2007
I – Reserve position (end of previous month)	52 935	53 799	85 839
1. Net purchases (+)/ sales (-) of Banco Central (interventions)	21 491	34 336	78 589
Spot	21 491	34 336	78 589
Lines with repurchase	-	-	-
Export lines	-	-	-
2. Banco Central's foreign operations	-20 627	-2 297	15 905
Disbursements	12 490	6 605	2 883
Bonds	12 490	5 450	2 883
Organizations	-	1 155	-
Amortizations	-27 914	-12 856	-140
Bonds and MYDFA	-4 641	-12 854	-138
Organizations	-23 273	-2	-2
Paris Club	-	-	-
Interest	-2 261	2 417	6 300
Bonds and MYDFA	-2 441	-273	-7
Organizations	-1 099	-125	-24
Paris Club	-2	-	-
Reserve interest earnings	1 280	2 815	6 330
Other[1/]	-2 941	1 537	6 863
II – Total Banco Central operations (1+2)	864	32 040	94 495
III – Reserve position (end of month)	53 799	85 839	180 334
Memorandum:			
Exchange market:	21 491	34 336	78 589
Transactions with residents (net)	19 223	36 428	87 940
Interbank transactions with non-residents (net)	-475	-	-
Change in bank holdings (net)[2/]	2 743	-2 092	-9 351

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

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

National Treasury External Debt Service

In 2007, as the nation's external accounts continued to evolve positively, the National Treasury Secretariat (STN) decided to continue the policy begun in 2003 of contracting exchange on the market for the purposes of payment of the bond-related debt service, including principal and interest. During the year, STN market settlements totaled US$14 billion, of which US$9.1 billion referred to principal, and US$4.8 billion to interest. Among payments of principal, one should highlight those referring to bonds denominated as Global 07-N, US$571.7 million; Euromarco 07, US$603 million; Samurai 07, US$526.9 million; Global 07, US$959 million; Eurolibra 07, US$278.6 million; and Euro 07, US$820.6 million.

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

US$ million

Period	Maturity profile			Maturity settlement		
	Principal	Interest	Total	Market	Reserves	Total
2007						
Jan	597	895	1 491	1 491	-	1 491
Feb	1 177	614	1 791	1 791	-	1 791
Mar	837	205	1 042	1 042	-	1 042
Apr	1 485	479	1 963	1 963	-	1 963
May	778	198	976	976	-	976
Jun	305	135	440	440	-	440
Jul	1 579	979	2 558	2 558	-	2 558
Aug	532	370	902	902	-	902
Sep	118	291	409	409	-	409
Oct	1 223	449	1 672	1 672	-	1 672
Nov	462	161	624	624	-	624
Dec	55	62	117	117	-	117
Year	9 149	4 838	13 986	13 986	-	13 986

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

As of January 2007, the program designed to repurchase Brazilian external debt securities on the international market, which, until December 2006, had focused on securities maturing through 2012, widened its target to include potentially all securities independently of their maturities. Aside from this, the program is now implemented through the National Treasury's external debt operations desk. Its fundamental guideline is to achieve improvement in the Brazilian interest curve profile abroad.

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

US$ million

Itemization	Principal	Interest	Premium/Discount	Total
2007				
Jan	25	1	6	31
Feb	575	8	131	714
Mar	821	13	258	1 092
Apr	958	20	284	1 262
May	778	25	295	1 098
Jun	305	10	66	381
Jul	342	9	73	423
Aug	532	11	121	664
Sep	102	2	27	132
Oct	403	9	103	515
Nov	462	12	128	602
Dec	55	1	21	77
Year	5 358	121	1 511	6 990

Through this program, approximately US$7 billion were settled on the market, including US$5.4 billion in outlays on amortizations, corresponding to the value of the effective reduction in the external debt; US$121 million in interest; and US$1.5 billion in outlays on premiums.

External debt

In December 2007, the total external debt reached US$193 billion, representing an increase of US$21 billion compared to the December 2006 stock. The medium and long-term debt increased US$2 billion in that period of time, closing with a total of US$154.3 billion, while the short-term debt expanded US$18.6 billion to a level of US$38.9 billion and the stock of intercompany loans increased US$20.5 billion, closing at US$47.3 billion, including US$43.1 billion in medium and long-term loans.

In the same period, the volume of outstanding external debt bonds declined US$4.8 billion, including 97.6% referring to public sector bonds.

Currency loan operations accounted for 39.1% of the medium and long-term external debt in December 2007, followed by bonds, with 30.6%, and trade financing operations, with 30.3%. Outstanding currency loans remained practically stable in 2007, registering growth in liabilities in notes, US$5.7 billion, offset by a reduction in direct loans in the same amount. Keeping step with growth in the country's trade flow, trade financing operations expanded US$6.8 billion in 2007.

Growth in the short-term debt came to 91.4%, basically reflecting increases in commercial bank loans, US$11.1 billion, and loan operations of other sectors, US$7.7 billion.

In December of 2007, considering only outstanding registered external debt, accounting for 85.7% of the total external debt, the private sector was the largest debtor, with 51.2% of the total, and a cumulative amount of US$75.2 billion in medium and long-term resources, together with US$9.7 billion in short-term resources. The medium and long-term indebtedness of the private sector was concentrated mainly in notes, US$42.9 billion, reflecting 51% of registered private liabilities.

The remaining 48.8% of the registered external debt for which the public sector is liable was distributed into US$79.2 billion in liabilities with original maturities of more than 360 days and US$1.6 billion in short-term liabilities. Of the total nonfinancial public sector medium and long-term external debt, 84% was concentrated at the National Treasury, including US$46.1 billion in bond operations. The state and municipal government debt represented 10% of the total nonfinancial public sector debt and was concentrated mainly in credits with international organizations. The debt of state-owned enterprises accounted for 6% of the total nonfinancial public sector debt and corresponded to credits granted by international organizations, banks and agencies, together with note issuances.

The debt contracted with a public sector guarantee reached US$13.5 billion in December 2007, of which only US$436 million represented private sector debt.

Table 5.36 – Gross foreign indebtedness[1/]

US$ million

Itemization	2003	2004	2005	2006	2007
A. Total debt (B+C)	214 930	201 374	169 450	172 589	193 219
B. Medium and long-term debt[2/]	194 736	182 630	150 674	152 266	154 318
Exceptional financing	28 255	24 946	-	-	-
IMF	28 255	24 946	-	-	-
BIS	-	-	-	-	-
BoJ	-	-	-	-	-
IMF loans	-	-	-	-	-
Renegotiated debt bonds	16 068	14 174	6 948	-	-
Other bonds[3/]	45 747	48 059	55 842	51 968	47 195
Import financing	47 869	42 609	38 877	39 983	46 758
Multilateral	23 433	22 241	21 779	25 148	26 981
Bilateral	12 856	10 970	8 614	6 259	6 482
Other financing sources	11 579	9 398	8 483	8 575	13 295
Currency loans	56 797	52 842	49 007	60 315	60 365
Notes[4/]	46 661	42 037	38 257	40 151	45 884
Direct loans	10 136	10 805	10 750	20 164	14 481
Other loans	-	-	-	-	-
C. Short-term debt	20 194	18 744	18 776	20 323	38 901
Credit line for petroleum imports	-	-	-	-	-
Commercial banks (liabilities)	14 822	15 991	15 701	16 527	27 613
Resolution 2,483 – Rural financing	-	-	-	-	-
Special operations	5 372	2 753	3 075	3 796	11 288
Financing	1 299	782	602	530	305
Currency loans	4 073	1 971	2 473	3 266	10 983
D. Intercompany loans	20 484	18 808	18 537	26 783	47 276
E. Total debt + intercompany loans (A+D)	235 414	220 182	187 987	199 372	240 495

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

Based on the December 2007 position, the amortization schedule of the gross medium and long-term registered external debt showed concentration of 51.2% of total maturities in the next five years. Considering the medium and long-term debt maturing up to 2012, the participation of the nonfinancial public sector reached 32%; that of the financial public sector accounted for 6%; and the private sector for 62%.

Broken down by type of creditor or instrument, the amortization schedule of the registered external debt shows that currency loans and bonds corresponded to 46.8% and 15.8%, respectively, of medium and long-term maturities through 2012, while debts with international organizations accounted for 18.1% of the scheduled maturities.

Table 5.37 – Registered external debt

US$ million — Outstanding: 12.31.2007

Debtor	Creditor							
	Bonds	Multilateral institutions[1/]	Bank loans	Notes[2/]	Government agencies	Suppliers credits	Others	Total
A. Total	47 195	27 200	26 211	51 823	6 482	5 197	1 497	165 606
B. Medium and long-term	47 195	26 981	21 423	45 884	6 482	5 063	1 289	154 318
Public sector	46 070	22 421	4 299	3 028	3 078	269	1	79 165
Nonfinancial public sector	46 070	18 277	1 917	1 500	2 216	269	1	70 250
National Treasury	46 070	11 102	989	-	666	164	-	58 991
Banco Central do Brasil	-	-	-	-	14	-	-	14
Public enterprises	-	887	621	1 500	1 110	97	1	4 215
States and municipalities	-	6 289	307	-	426	8	-	7 029
Financial sector	-	4 143	2 382	1 528	862	-	-	8 915
Private sector	1 125	4 560	17 125	42 856	3 405	4 794	1 289	75 153
Nonfinancial sector	1 000	2 692	12 884	22 105	3 269	4 782	511	47 244
Financial sector	125	1 868	4 240	20 750	136	12	778	27 910
C. Short-term	-	219	4 788	5 939	-	134	208	11 288
Loans	-	175	4 661	-	-	-	208	5 044
Nonfinancial sector	-	-	539	-	-	-	35	574
Financial sector	-	175	4 123	-	-	-	173	4 470
Import financing	-	44	126	5 939	-	134	-	6 244
Nonfinancial sector	-	-	5	4	-	134	-	143
Financial sector	-	44	122	5 936	-	-	-	6 101
D. Intercompany loans	255	-	-	3 223	-	-	43 798	47 276
E. Total debt + intercompany loans (A+D)	47 451	27 200	26 211	55 046	6 482	5 197	45 295	212 882

1/ Includes IMF.

2/ Includes commercial papers and securitizated loans.

The average maturity of the registered external debt dropped from 8.1 years in December 2006 to 7.5 years in December 2007. Analysis of the latter figure shows that the debt corresponding to suppliers/buyers credits was the category with the shortest average term, 3.3 years, while that referring to bonds had the longest average term, with 13.7 years. The average maturity of liabilities with international organizations decreased from 6.7 years to 6.4 years in 2007.

Segmentation of the registered external debt according to disbursement currency indicates that the share accounted for by the United States dollar dropped from 81.4% of the total in 2006 to 74.7% in December 2007. The relative participation of the debt registered in euro shifted from 7.5% to 6.3% during the same period, while the external liabilities expressed in the yen and real shifted from 7.1% to 10.9% and from 3.7% to 7.9%, in that order.

As regards the profile of the registered external debt by interest rate modality, the share that generates earnings based on floating rates dropped from 35.9% in 2006 to 35.8% in December 2007. Of the total amount of debt contracted at floating rates of interest, the six-month Libor remained as the major indexing factor, with an increase in its relative participation from 55.7% to 56.9% during the period.

Table 5.38 – Public registered external debt

Breakdown of principal by debtor and by guarantor

US$ million

Itemization	2003	2004	2005	2006	2007
Federal government (direct)	76 729	75 345	75 161	63 942	58 991
States and municipalities	6 364	6 904	6 474	6 815	7 055
Direct	2	-	0	-	41
Guaranteed by the federal government	6 363	6 904	6 474	6 815	7 013
Semi-autonomous entities, public	-	-	-	-	-
companies and mixed companies	48 328	43 041	14 953	14 777	14 700
Direct	13 708	12 280	9 447	9 041	8 619
Guaranteed by the federal government	34 620	30 761	5 505	5 735	6 081
Private sector (garanteed by the public sector)	225	128	98	89	436
Total	131 646	125 418	96 686	85 622	81 182
Direct	90 439	87 625	84 608	72 983	67 652
Guaranteed by	41 207	37 793	12 078	12 640	13 530
Federal government	41 023	37 604	12 034	12 597	13 454
States and municipalities	-	-	4	3	8
Semi-autonomous entities, public					
companies and mixed companies	184	188	40	40	67

Table 5.39 – Registered external debt – By debtor

Amortization schedule[1/]

US$ million

Itemization	Outstanding debt	2008	2009	2010	2011	2012
A. Total debt (B+C)	165 606	34 588	16 927	16 176	11 515	11 158
B. Medium and long-term debt	154 318	23 300	16 927	16 176	11 515	11 158
Nonfinancial public sector	70 250	4 938	4 519	4 604	5 150	6 070
Central government	59 005	3 448	3 345	3 592	4 017	5 111
Others	11 244	1 490	1 174	1 012	1 133	960
Financial public sector	8 915	1 419	571	843	1 394	499
Private sector	75 153	16 944	11 838	10 729	4 971	4 589
C. Short-term debt	11 288	11 288	-	-	-	-
Nonfinancial public sector	22	22	-	-	-	-
Financial public sector	1 559	1 559	-	-	-	-
Private sector	9 706	9 706	-	-	-	-
D. Intercompany loans	47 276	11 399	4 236	3 489	3 405	3 538
E. Total debt + intercompany loans (A+D)	212 882	45 988	21 163	19 665	14 920	14 696

(continues)

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

Amortization schedule[1/]

US$ million						Outstanding: 12.31.2007
Itemization	2013	2014	2015	2016	2017	Beyond and arrears
A. Total debt (B+C)	9 806	5 992	9 880	7 580	6 890	35 093
B. Medium and long-term debt	9 806	5 992	9 880	7 580	6 890	35 093
Nonfinancial public sector	3 547	2 551	5 287	3 499	3 835	26 250
Central government	2 618	1 915	3 963	2 819	3 386	24 792
Others	929	637	1 324	679	449	1 457
Financial public sector	1 138	434	394	348	307	1 569
Private sector	5 122	3 007	4 198	3 734	2 747	7 274
C. Short-term debt	-	-	-	-	-	0
Nonfinancial public sector	-	-	-	-	-	-
Financial public sector	-	-	-	-	-	-
Private sector	-	-	-	-	-	-
D. Intercompany loans	2 565	2 729	2 647	2 469	2 819	7 980
E. Total debt + intercompany loans (A+D)	12 372	8 721	12 527	10 049	9 708	43 073

1/ Includes exceptional financing.

Graph 5.13
Average term of registered external debt

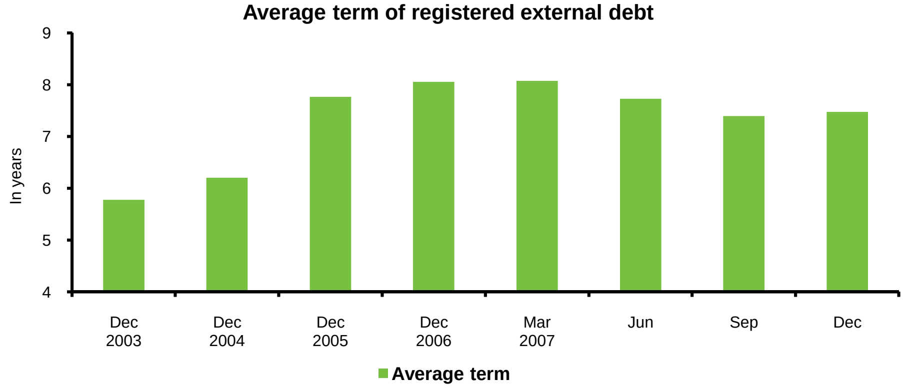


Table 5.40 – Registered external debt – By creditor

Amortization schedule[1/]

US$ million						Outstanding: 12.31.2007
Itemization	Outstanding debt	2008	2009	2010	2011	2012
A. Total debt (B+C)	165 606	34 588	16 927	16 176	11 515	11 158
B. Medium and long-term debt	154 318	23 300	16 927	16 176	11 515	11 158
International organizations	26 981	2 048	2 566	3 179	2 763	3 724
Government agencies	6 482	837	929	931	730	686
Buyers	8 232	1 487	1 708	1 432	1 097	1 222
Suppliers	5 063	1 235	541	2 028	251	123
Currency loans	60 365	15 266	9 148	6 324	3 648	2 654
Notes[2/]	45 884	10 728	6 263	4 748	1 732	1 783
Direct loans	14 481	4 538	2 885	1 577	1 916	871
Bonds	47 195	2 428	2 035	2 282	3 026	2 749
C. Short-term debt	11 288	11 288	-	-	-	-
D. Intercompany loans	47 276	11 399	4 236	3 489	3 405	3 538
E. Total debt + intercompany loans (A+D)	212 882	45 988	21 163	19 665	14 920	14 696
Itemization	2013	2014	2015	2016	2017	Beyond and arrears
A. Total debt (B+C)	9 806	5 992	9 880	7 580	6 890	35 093
B. Medium and long-term debt	9 806	5 992	9 880	7 580	6 890	35 093
International entities	2 264	1 744	1 568	1 313	1 168	4 643
Government agencies	566	454	399	329	234	387
Buyers	602	387	189	33	15	59
Suppliers	309	47	53	45	48	384
Currency loans	4 139	2 205	4 367	3 460	2 517	6 636
Notes[2/]	3 188	1 829	3 761	3 241	2 383	6 229
Direct loans	951	376	606	219	134	408
Bonds	1 926	1 156	3 304	2 400	2 907	22 983
C. Short-term debt	-	-	-	-	-	-
D. Intercompany loans	2 565	2 729	2 647	2 469	2 819	7 980
E. Total debt + intercompany loans (A+D)	12 372	8 721	12 527	10 049	9 708	43 073

1/ Includes exceptional financing.

2/ Includes commercial papers and securities.

Table 5.41 – Average maturity term

Registered external debt[1/]

US$ million

Itemization	2007	Average maturity (years)
A. Total	162 136	7.47
International organizations	26 976	6.40
Government agencies	6 468	4.87
Buyers/suppliers	12 916	3.28
Currency loans + short-term	68 580	4.63
Bonds	47 195	13.72
Bradies	186	3.50
Global/Euro	45 884	13.96
Others	1 125	5.44
B. Intercompany loans	43 572	5.68
C. Total + intercompany loans	205 707	7.09

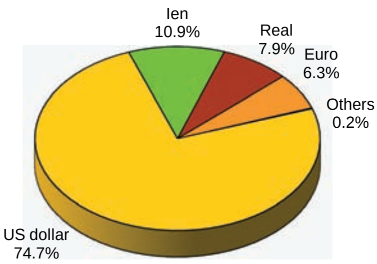
1/ Excludes debt in arrears.

Graph 5.14

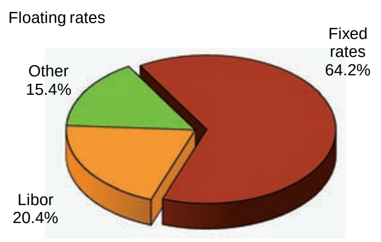
Registered external debt composition

December 2007

Distribution by currency



Distribution by type of interest rate



External sustainability indicators

In 2007, the trend toward improvement in the external sustainability indicators that had marked previous years continued. This result was basically due to the significant increase in the international reserve position, which more than doubled in the year under analysis, and to the reduction in the external debt service, particularly amortizations, accompanied by growth in the dollar value of exports and GDP.

The value of the debt service dropped 8.8% in 2007, compared to the previous year. This reduction was a consequence of the high basis of comparison, considering anticipated payments of Brady bond call operations, the Tender Offer and the 2006 settlement of liabilities with the Paris Club. In 2007, exports expanded 16.6%, implying a reduction in the participation of the debt service in exports from 41.3% to 32.3% in the period.

Table 5.42 – Indebtedness indicators[1/]

US$ million

Itemization	2003	2004	2005	2006	2007
Debt service	52 988	51 800	66 048	56 902	51 880
Amortizations[2/]	38 809	37 561	51 587	42 024	36 588
Gross interest	14 179	14 239	14 460	14 878	15 292
Medium and long-term external debt (A)	194 736	182 630	150 674	152 266	154 318
Short-term external debt (B)	20 194	18 744	18 776	20 323	38 901
Total debt (C)=(A+B)	214 930	201 374	169 450	172 589	193 219
International reserves (D)	49 296	52 935	53 799	85 839	180 334
Brazilian credit abroad (E)[3/]	2 915	2 597	2 778	2 939	2 894
Commercial bank assets (F)	11 726	10 140	11 790	8 990	21 938
Net debt (G)=(C-D-E-F)	150 993	135 702	101 082	74 821	-11 948
Export	73 084	96 475	118 308	137 807	160 649
GDP	553 603	663 783	882 439	1 071 973	1 313 901
Indicators (in percentage)					
Debt service/exports	72.5	53.7	55.8	41.3	32.3
Debt service/GDP	9.6	7.8	7.5	5.3	3.9
Total debt/exports	294.1	208.7	143.2	125.2	120.3
Total debt/GDP	38.8	30.3	19.2	16.1	14.7
Net total debt/exports	206.6	140.7	85.4	54.3	-7.4
Net total debt/GDP	27.3	20.4	11.5	7.0	-0.9

1/ Excludes stock of principal, amortizations and interests concerning intercompany loans. Considers a review in the medium and long-term indebtedness position of the private sector.
2/ Includes the payments referring to the financial assistance program. Refinanced amortizations are not considered.
3/ Export Financing Program (Proex).

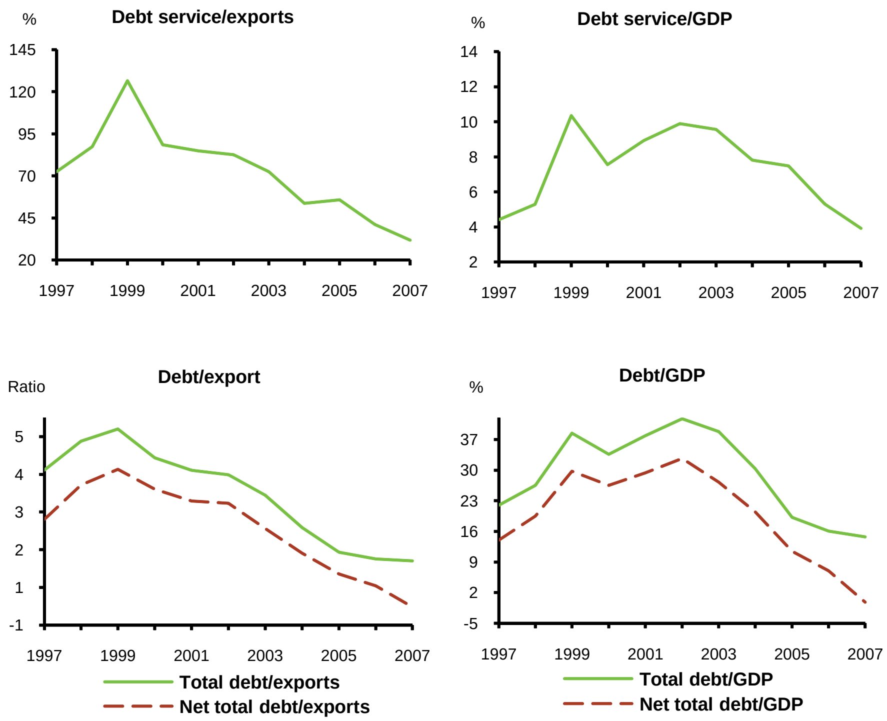
Nominal GDP in dollars increased 22.6% in 2007, while the overall external debt increased 12%, resulting in a reduction of 1.4 p.p. in the external debt/GDP indicator to a level of 14.7%. The ratio between debt service and GDP also declined, dropping from 5.3% to 3.9%.

The indicator that expresses total external debt as a proportion of exports remained on a downward trajectory, moving from 125.2% in 2006 to 120.3% at the end of 2007.

The total external debt net of assets shifted into a negative position, meaning that, in 2007, Brazil assumed the position of international creditor for the first time, as the total amount of Brazilian financial assets against nonresidents (international reserves, trade credits and bank assets abroad) surpassed the value of the total external debt. Thus, the ratio between the net external debt and the value of export revenues in the last 12 months moved from 54.3% in December 2006 to -7.4% in December 2007. In relation to GDP, the same net liabilities dropped from 7% to -0.9% in the period.

Graph 5.15

Indebtedness indicators



External funding operations

The face value of the bonds issued by the Federative Republic of Brazil in 2007 came to US$2.9 billion. As distributed in the first six months of the year, international market funding operations were expressed in the following currencies: in dollars, with the reopenings of Global 37 and Global 17; and in reals, with issuance and three reopenings of the Global BRL 28 bond. The maturity terms of the securities varied from 10 to 30 years. Risk premiums, defined as the difference between the rate of return offered by Brazilian securities and the equivalent American Treasury bonds, in 2007 issuances, reached 173 b.p. for the reopening of the Global 37 and 122 b.p. in the reopening of the Global 17. In the month of February, the National Treasury held its third external sovereign debt issuance expressed in real, with placement of the Global BRL 28, with reopenings in March, May and June.

The remaining restructured external debt totaled US$186 million in 2007, dropping by US$169 million compared to the 2006 balance. The major share of this reduction resulted from Central Bank settlement of the MYDFA in September 2007. The residual balance of the restructured external debt in the position analyzed refers exclusively to the pre-Brady Exit Bond balance (Brazil Investment Bonds – BIB).

Table 5.43 – Issues of the Republic

Itemization	Date of inflow	Date of maturity	Maturity years	Value US$ million	Coupon % p.y.	Rate of return at issuance % p.y.	Spread over U.S. Treasury[1/] basis points
Euromarco 07	2.26.1997	2.26.2007	10	592	8.000		242
Global 27[2/]	6.9.1997	6.9.2027	30	3 500	10.125	10.90	395
Eurolira[3/]	6.26.1997	6.26.2017	20	443	11.000		348
Eurolibra	7.30.1997	7.30.2007	10	244	10.000	8.73	268
Global 08	4.7.1998	4.7.2008	10	1 250	9.375	10.29	375
Euromarco 08[4/]	4.23.1998	4.23.2008	10	410	10 a 7	8.97	328
Global 09	10.25.1999	10.15.2009	10	2 000	14.500	14.01	850
Euro 06	11.17.1999	11.17.2006	7	723	12.000	12.02	743
Global 20	1.26.2000	1.15.2020	20	1 000	12.750	13.27	650
Euro 10	2.4.2000	2.4.2010	10	737	11.000	12.52	652
Global 30[5/]	3.6.2000	3.6.2030	30	1 600	12.250	12.90	663
Global 07[6/]	7.26.2000	7.26.2007	7	1 500	11.250	12.00	612
Global 40	8.17.2000	8.17.2040	40	5 157	11.000	13.73	788
Euro 07[7/]	10.5.2000	10.5.2007	7	656	9.500	11.01	508
Samurai 06	12.22.2000	3.22.2006	5	531	4.750	10.92	531
Global 06	1.11.2001	1.11.2006	5	1 500	10.250	10.54	570
Euro 11	1.24.2001	1.24.2011	10	938	9.500	10.60	560
Global 24	3.22.2001	4.15.2024	23	2 150	8.875	12.91	773
Samurai 07	4.10.2001	4.10.2007	6	638	4.750	10.24	572
Global 12	1.11.2002	1.11.2012	10	1 250	11.000	12.60	754
Global 08N	3.12.2002	3.12.2008	6	1 250	11.500	11.74	738
Euro 09	4.2.2002	4.2.2009	7	440	11.500	12.12	646
Global 10	4.16.2002	4.15.2010	8	1 000	12.000	12.38	719
Global 07N	5.6.2003	1.16.2007	4	1 000	10.000	10.70	783
Global 13	6.17.2003	6.17.2013	10	1 250	10.250	10.58	738
Global 11[8/]	8.7.2003	8.7.2011	8	1 250	10.000	11.15	701
Global 24B	8.7.2003	4.15.2024	21	825	8.875	12.59	764
Global 10N	10.22.2003	10.22.2010	7	1 500	9.250	9.45	561
Global 34	1.20.2004	1.20.2034	30	1 500	8.250	8.75	377
Global 09 N	6.28.2004	6.29.2009	5	750	Libor 3m +5,76	Libor 3m + 5,94	359
Global 14[9/]	7.14.2004	7.14.2014	10	1 250	10.500	10.80	538
Euro 12[10/]	9.24.2004	9.24.2012	8	1 228	8.500	8.57	474
Global 19	10.14.2004	10.14.2019	15	1 000	8.875	9.15	492
Euro 15	2.3.2005	2.3.2015	10	652	7.375	7.55	399
Global 25	2.4.2005	2.4.2025	20	1 250	8.750	8.90	431
Global 15	3.7.2005	3.7.2015	10	1 000	7.875	7.90	353
Global 19 (Reopening)	5.17.2005	10.14.2019	14	500	8.875	8.83	458

(continues)

Table 5.43 – Issues of the Republic (concluded)

Itemization	Date of inflow	Date of maturity	Maturity years	Value US$ million	Coupon % p.y.	Rate of return at issuance % p.y.	Spread over U.S. Treasury[1/] basis points
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	-
Global 37 (Reopening)	1.30.2007	1.20.2037	30	500	7,125	6,64	173
Global BRL 28	2.14.2007	1.10.2028	21	715	10,250	10,68	-
Global BRL 28 (Reopening)	3.27.2007	1.10.2028	21	361	10,250	10,28	-
Global 17 (Reopening)	4.11.2007	1.17.2017	10	525	6,000	5,89	122
Global BRL 28 (Reopening)	5.17.2007	1.10.2028	21	389	10,250	8,94	-
Global BRL 28 (Reopening)	6.26.2007	1.10.2028	21	393	10,250	8,63	-

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

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

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

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

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

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

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

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

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

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

Table 5.44 – Restructured external debt

Itemization	Outstanding 12.31.2007 US$ million	Maturity
Exit Bond (Brazil Investment Bond – BIB) – (pre-Bradies)	186	9.15.2013
Total	186	-

Brazilian external debt securities

Over the course of 2007, the basket of Brazilian external debt securities weighted by liquidity showed an average earnings spread in relation to American Treasury bonds of 181 b.p, compared to 399 b.p. in 2005 and 235 b.p. in 2006, when calculated on the basis of daily observations.

International Investment Position

The International Investment Position (IIP) posted an increase of US$189.7 billion in net external liabilities in December 2007, compared to December 2006. This figure resulted from increases of US$315.8 billion in gross external liabilities and US$126.1 billion in external assets.

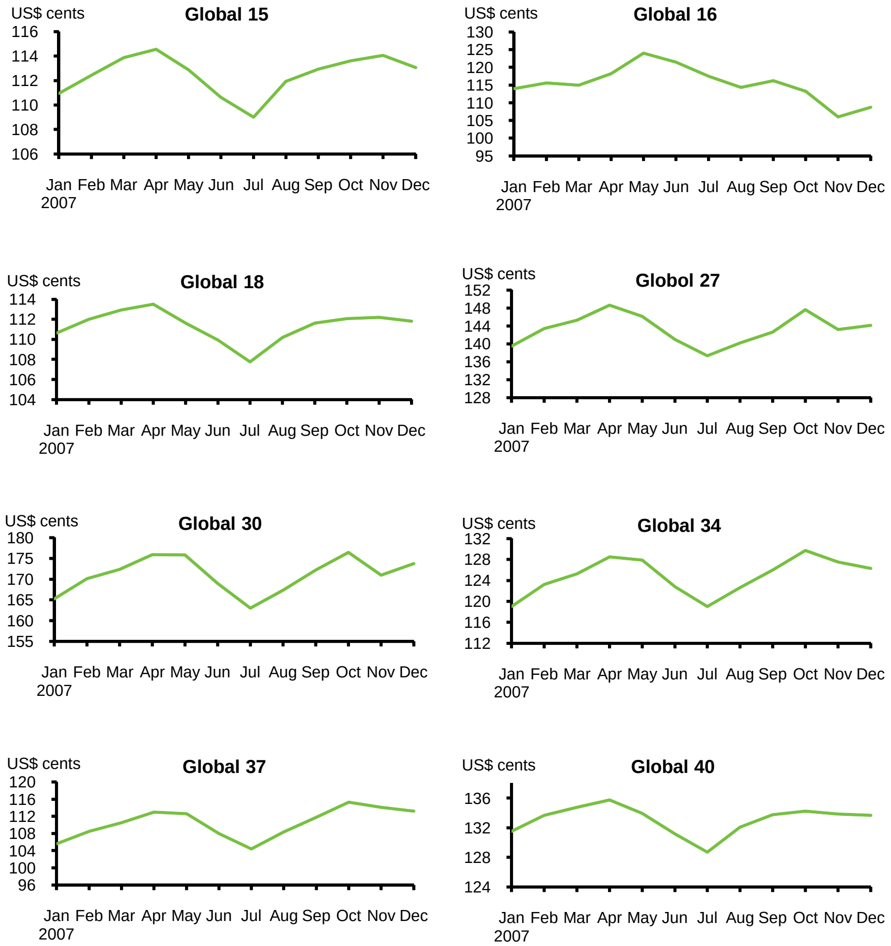
In the case of external assets, mention should be made of increases of US$94.5 billion in international reserves and US$16.3 billion in assets abroad in the modality of currency and deposits. At the same time, growth of US$15.9 billion in Brazilian direct investments abroad and US$0.9 billion in Brazilian portfolio investments was also registered.

With regard to the evolution of external liabilities, one should stress the increase of US$206.1 billion in outstanding foreign portfolio investments, including US$172.5 billion in stock investments and US$33.6 billion in fixed income securities. The stock of FDI increased US$92.3 billion, particularly as a result of growth in the modality of capital participation, with US$71.8 billion.

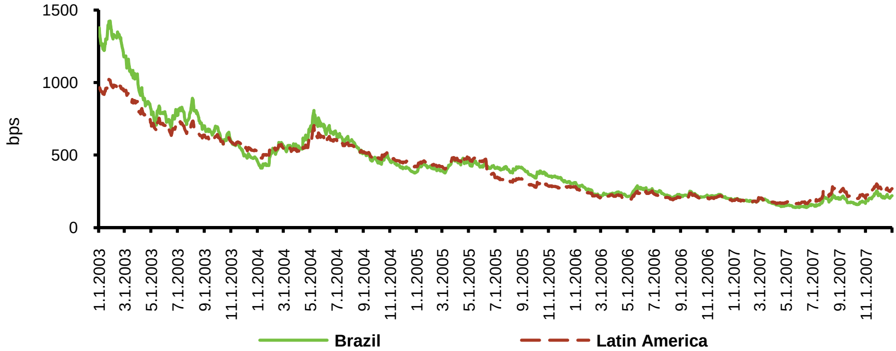
The stock of other investments expanded US$16.1 billion, wholly as a result of increases in loans contracted by residents in the country with nonresidents, registering growth of US$1.1 billion in the stock of medium and long-term operations and US$14.4 billion in short-term operations.

Despite being published in United States dollars, outstanding FDI-capital participation and stock investments and fixed income securities negotiated in the country are expressed and calculated in real and, for this reason, were directly impacted by 17.2% exchange

Graph 5.16
Prices of Brazilian securities abroad
Secondary market – Bid price, end-of-period – 2007



Graph 5.17
Brazil risk index – Embi+ (Strip spread)



Source: JPMorgan

appreciation in 2007. Parallel to this, stock investments registered significant price gains which, based on the Bovespa Index, reached 43.6% in the same time period. Consequently, for the most part, the 172.5% growth registered in outstanding foreign investments in the stock market reflected variations in the prices of the stocks traded coupled with exchange appreciation, giving due consideration also to net positive flows of US$26.2 billion in the period under analysis, according to balance of payments statistics.

Table 5.45 – International investment position

US$ million

Itemization	2005	2006	2007
International investment position (A-B)	-331 085	-384 377	-574 063
Assets (A)	168 182	238 924	365 008
Direct investment abroad	79 259	113 925	129 839
Equity capital[1/]	65 418	97 465	107 556
Intercompany loans	13 842	16 460	22 284
Portfolio investment[2/]	10 834	14 429	15 337
Equity securities	2 809	3 754	5 167
Debt securities	8 026	10 675	10 170
Bonds and notes	4 850	6 185	5 590
Of which collateral (principal)	1 249	-	0
Money-market instruments	3 176	4 490	4 580
Financial derivatives	119	113	62
Other investment	24 171	24 617	39 436
Trade credits (of suppliers)	98	70	70
Loans	727	562	-1 580
Currency and deposits	17 077	17 200	33 539
Other assets	6 269	6 785	7 407
Of which collateral (interests) and memberships in international financial organizations	1 363	1 121	1 076
Reserve assets	53 799	85 839	180 334

(continues)

Table 5.45 – International investment position (concluded)

US$ million

Itemization	2005	2006	2007
Liabilities (B)	499 268	623 300	939 071
Direct investment in reporting economy	195 562	236 186	328 455
Equity capital[1/]	177 024	209 403	281 179
Intercompany loans	18 537	26 783	47 276
Portfolio investment[2/]	232 627	303 583	509 648
Equity securities	125 532	191 513	363 999
In the reporting country	50 394	82 994	165 708
Abroad	75 138	108 520	198 291
Debt securities	107 096	112 070	145 650
Bonds and notes	107 096	112 070	145 650
In the reporting country	5 147	18 163	46 631
Abroad	101 949	93 907	99 018
Medium and long-term	101 047	92 119	93 079
Medium and short-term	901	1 788	5 939
Financial derivatives	219	445	1 771
Other investment	70 859	83 087	99 197
Trade credits	4 772	5 216	5 197
Medium and long-term	4 424	4 869	5 063
Medium and short-term	349	347	134
Loans	62 729	73 466	89 003
Monetary authority	301	157	14
Use of Fund credit & loans from the Fund	-	-	-
Other long-term	301	157	14
Short-term	-	-	-
Other sectors	62 428	73 309	88 989
Long-term	44 902	55 121	56 162
International entities	21 779	25 148	26 981
Government agencies	8 614	6 259	6 482
Buyers	4 059	3 707	8 232
Direct loans	10 449	20 007	14 467
Short-term	17 527	18 188	32 827
Currency and deposits	3 358	4 405	4 996
Monetary authority	111	83	73
Banks	3 246	4 321	4 923
Other liabilities	-	-	-

1/ Includes reinvested earnings.

2/ Includes securities issued by residents.