V

ECONOMIC-FINANCIAL RELATIONS WITH THE INTERNATIONAL COMMUNITY

Foreign trade policy

In 1999, foreign trade policy was marked by alterations in the nation's exchange system. In the Mercosul framework, the exchange devaluation aggravated trade friction with Argentina as that country's private sector has become increasingly vociferous in demanding compensatory measures. Resolution of these problems has required considerable cooperation between the governments and private sectors of both nations, particularly in light of the economic difficulties with which these two Mercosul partners have had to cope.

In general, the foreign trade policy implemented during the year was based on measures taken to leverage foreign sales. However, this strategy has evinced the overriding need for progress in the fiscal adjustment program, a demand further reinforced by the agreement with the IMF. The lack of movement in this area jeopardizes the credit capacity of programs that are essential to foreign trade growth. Another measure rooted in the restrictions imposed by the fiscal adjustment process was the increase in the tax load on export operations, as a result of elimination of the possibility of offsetting presumed IPI credits with refunds of the PIS/Pasep and Cofins on exported products.

Budget difficulties, however, were not sufficient to impede implementation of a series of measures targeted at the modernization, deregulation and streamlining of import and export procedures. As examples of these changes, one could cite automatic registration of new exporters and importers for operations in the Siscomex framework, regulation of the express customs clearance system and simplified taxation, together with introduction of a special customs system for petroleum imports.

Insofar as export financing measures are concerned, in the period following the Russian moratorium, the relative scarcity of long-term credit mechanisms became obvious. In the face of these difficulties, the agreement with the IMF included a commitment on the part of several foreign banks to maintain their February 1999 credit position until August of that year. Initially, the government sought to facilitate exports in an adverse international climate, by seeking to make export financing compatible with the time periods commonly found on the international market. Circular Letter no. 2,843 was issued by Banco Central on 3.25.1999, introducing a new interest rate equalization bracket for financing in the Export Financing Program (Proex) framework, with a term of up to six months and a maximum applicable percentage of 1%. In the period from six months to one year, the percentage applied was 2% per year. In cases of financing operations with terms of more than one year, the previous percentages were maintained, ranging up to a maximum of 3.8% per year in the 9 to 10 year bracket.

In the Mercosul framework, MDIC Directive no. 93, dated 3.26.1999, limited utilization of Proex financing exclusively to capital goods.

Despite the gains in competitiveness that marked the export sector, the exchange devaluation, coupled with budget cuts, caused a loss of Proex financing capacity. These cuts represented a cutback in resources under the interest rate equalization modality from R$ 908 million to R$ 749 million. Since international trade operations are denominated in dollars, the real credit capacity of the program was diminished, particularly in the equalization modality.

In the last four months of the year, Proex budget cuts were even more severely felt. As a result, the requirements for access to Program financing were further tightened. It is under this prism that one should understand CMN Resolution no. 2,621, dated 7.26.1999, which revoked the dispensation from the need for prior consultation in financing operations involving exports of goods and services and computer programs carried out by BNDES and Finame within the interest rate equalization system. With this alteration, releases of financing by the Program are to be submitted to prior Banco do Brasil S/A (National Treasury financing agent) examination and the prior approval of the Export Credit Committee (CCEx).

In light of this fiscal restriction, Banco Central issued Circular Letter no. 2,881, dated 11.19.1999, reducing the maximum percentages applicable in all available brackets of the interest rate equalization modality. The maximum percentage – the nine to ten year bracket – was reduced from 3.8% to 2.5%. Since the measure was also applicable to aircraft financing, it was in compliance with the decisions of the World Trade Organization (WTO), in the context of the Embraer / Bombardier trade dispute.

Parallel to this, as a result of the WTO litigation between the two aircraft manufacturers, Banco Central released Resolution no. 2,667, dated 11.19.1999, defining the criteria applicable to interest rate equalization operations in the Proex framework and determined that equalization rates in aircraft financing operations should use interest on ten year United States Treasury Bonds, plus a spread of 0.2% per year, as their reference.

As part of the fiscal adjustment effort, article 12 of Provisional Measure no. 1,807-2, dated 3.25.1999, suspended the granting of presumed IPI credits in the period from April 1 to December 31, 1999, in the form of refunds of contributions to PIS/Pasep and Cofins, levied on the value of inputs acquired on the internal market and utilized in the manufacture of exported products. Basically, this measure impacted exports of industrialized products, the largest beneficiaries of the previous situation.

With regard to measures related to deregulation, administrative streamlining and modernization of customs controls in export operations, one should cite Secex Directive no. 4, dated 6.7.1999, which exempted the companies involved from the need for monthly corroboration of drawback operations with terms of up to 180 days (suspension modality), requiring that this be done only 30 days after the concession is made effective.

Simplification of the legislation on drawback operations was also targeted at small and medium businesses. On 6.23.1999, Secex Directive no. 7 permitted utilization of the simplified registration for granting these benefits, when the total value of the export commitment is no more than US$ 120 thousand per calendar year. The purpose here was to generate benefits for the companies above.

With the same objective of deregulating export procedures, Secex Directive no. 5, dated 6.10.1999, permitted Banco do Brasil S/A branches to issue Certificates of Origin. These documents may be required at the time of the export operation, when exporters are unable to effect immediate corroboration of shipment of the goods and the transportation conditions, as required for the products to receive the preferential treatment defined by the signatory countries of the General System of Preferences (SGP). This measure was particularly beneficial to exports of perishable goods utilizing air transportation.

Another measure aimed at modernizing foreign trade management was specified by Secex Directive no. 12, dated 12.15.1999, determining that new exporters or importers – including both individuals and legal entities – will be automatically registered in the Exporter and Importer Record (REI), at the time of their first operation in Siscomex. These companies were also dispensed from prior presentation of any documentation.

Following the same line of action, utilization of the Simplified Declaration in import and export operations was regulated on 12.22.1999 by SRF Normative Instruction no. 155. In most cases, the value limit was defined at up to US$ 3,000 in import operations and up to US$ 10,000 for export operations.

SRF Normative Instruction no. 153, dated 12.22.1999, was issued for the purpose of facilitating international trade operations. This measure consolidated and extended application of the Express Customs Clearance System (Blue Line) to all customs centers operated by the SRF. This system had been previously restricted to just five localities in the country. To qualify for inclusion, companies must have exported or imported a minimum of US$ 30 million in the most recent fiscal year or in the 12 months prior to presentation of the request. Aside from this, importer companies must demonstrate that they have effected shipments equivalent to at least 50% of the value imported. The purpose of this measure is to stimulate foreign sales operations. Initially, only legal entities were able to participate in the Blue Line procedure. It is estimated that the time needed for customs clearance will be diminished from two to three business days to an average of just four hours.

Among the export incentives implemented in 1999, mention should be made of Decree no. 3,312, dated 12.24.1999, which created a special customs system for imports of crude oil and its derivatives when the products involved are to be exported or re-exported. Imports through this special system may be exported in an equivalent state or as products that have been actively processed and improved in the country or re-exported. Access to this system is granted only to companies that have qualified for participation and must be authorized to carry out activities involving imports, exports and refining of crude oil and its derivatives. This system, which is similar to the traditional drawback system, suspends payments of taxes on imports of petroleum oils and derivatives until such time as the company demonstrates that it has exported an equivalent amount of derivatives. The suspension period is 90 days and may be extended only once for an equivalent period.

Secex Directive no. 8, dated 8.12.1999, set down regulations related to export operations. This norm determined that exports of coffee beans and unprocessed cotton consequent upon physical liquidation of contracts formalized at the Commodities and Futures Market, between nonresident buyers and resident sellers, should be processed through Siscomex by obtaining Sale Registration and Export Registration.

Parallel to this, the BNDES Guaranty Fund, or Guaranty Fund for Fostering Competitiveness (FGPC) was reissued by Circular no. 165 of the Special Industrial Financing Agency (Finame), on 7.9.1999. Alterations were introduced into the FGPC, including an increase in the financing agent's spread from 2.5% to 4% annually and the broadening of financing coverage in order to improve its acceptability. The ceiling on annual revenues for microbusinesses was set at R$ 700 thousand; while revenues for small businesses were limited to between R$ 700 thousand and R$ 6.125 thousand, and medium size businesses to between R$ 6.125 thousand and R$ 35 million (as compared to the previous ceiling of R$ 15 million). Financing agents were encouraged to make increasingly greater use of the Guaranty Fund: for each R$ 1 million in operations, the financing agent will receive an additional 10% of funding for nonearmarked investments.

In 1999, the Export Promotion Agency (Apex) gave priority to sectoral projects, stimulating foreign sales of fruits, furniture, gemstones and precious metals, chicken, equipment for the sectors of leather, footwear and like products, as well as creation and operation of export consortia. The Agency also provided support to such larger scale projects as Brasil Export Serviços e Tecnologia (Best), an initiative of the Brazilian Service of Support to Micro and Small Businesses (Sebrae). This project has made it feasible to sell a series of products on the United States and Canadian markets both through the Internet and on the wholesale market. Publication of the magazine Brasil

Now, in a partnership with the Foreign Trade Association of Brazil (AEB) and Editora Brasil Now has the objective of disseminating the image of Brazilian products on the international market and is part of much broader project. Apex finances up to 50% of total investments in the advertising of export products.

Insofar as imports are concerned, the January exchange devaluation altered the rules for setting the exchange rates used in payments of the taxes levied at the moment of customs clearance. MF Directive no. 6 and SRF Directive no. 87, both of which were issued on 1.25.1999, determined that the exchange rate would be calculated on the basis of the price quotation of the previous day and no longer that of the final day of the previous month.

The exchange devaluation also introduced greater flexibility into the products included in the Brazilian list of exceptions to the Common External Tariff (TEC). Decree no. 3,015, dated 3.31.1999, excluded 49 of the 193 positions included on the Brazilian list. The rates of the Import Tax on these products, most of which consisted of home appliances, were adjusted to the levels agreed upon for the TEC. Another 40 products classified within the medical-hospital supply segment were included in the TEC list of exceptions, with Import Tax rates reduced to zero.

Aside from this, on 5.3.1999, the alteration in the exchange system made it possible to reduce the number of items found on the list of imported products for which licensing is not automatic from 700 to 350. Secex did not issue a directive in this sense, since at the time of import registration the importer is informed by Siscomex whether the product in question is included in the aforementioned list. Several products from the chemical and textile sectors remain under Secex control, since they require authorization from the Ministries of Health and Agriculture. Firearms are also subject to differentiated systems of treatment.

On 6.24.1999, MF Directive no. 156 expanded the value limit for purposes of registration of imports within the Simplified Tax System from US$ 500 to US$ 3,000, effective as of 7.1.1999. This system is commonly utilized, for example, in postal remittances and international airmail deliveries of goods to individuals or legal entities. The Import Tax rate for all goods is 60%.

In the health protection framework, since June 1999 the National Health Inspection Agency (ANVS) has implemented a series of precautionary measures consequent upon the contamination of Belgian food products by dioxin. The purpose of the measures taken by the ANVS was to avoid the possibility of consumption in Brazil of dioxin contaminated goods. The consolidation of this precautionary legislation is contained in ANVS/RDC Resolution no. 19, dated 11.19.1999, requiring presentation of a Health Certificate and Official Declaration signed by a competent Belgian authority and based on the model approved by European Union Directives, duly translated into Portuguese.

Aside from this, the importer company is to submit a product analysis report on dioxin contamination of the food product in question, with proper identification of the product batch.

With regard to trade defense policy, MDIC/MF Interministerial Directive no. 7, dated 7.6.1999, imposed definitive ad valorem antidumping rights of 47% and 45.8% for a period of five years on imports of thermos bottles and glass linings for thermos bottles, respectively, when such goods originate in the People's Republic of China.

Along the same lines, MDIC/MF Interministerial Directive no. 7, dated 7.22.1999, applied definitive ad valorem antidumping rights on imports of polycarbonate resins for a period of five years, at rates of 9% on products imported from the Federal Republic of Germany and 19% on those from the United States of America.

On 10.6.1999, MDIC/MF Interministerial Directive no. 13 applied definitive ad valorem antidumping rights at a rate of 32.2% to imports of seamless carbon steel tubes with specific characteristics, when such originate in Romania.

Also in the framework of trade defense policy, MDIC/MF Interministerial Directive no. 19, dated 12.22.1999, extended application of safeguard measures to imports of toys, raising the rate of the Import Tax by including an amount additional to the TEC.

In reciprocity to the treatment accorded Brazilian exports by Argentina as of November 1st, 1999, Banco Central issued Circular no. 2,955, dated 12.15.1999, altering the Regulations on the Reciprocal Payment and Credit Agreement (CCR), requiring prior deposit at Banco Central do Brasil on imports supported by the agreement and originating or proceeding from that country. In practical terms, this measure alters the rules governing the granting of letters of credit, placing a heavier burden on imports. Deposit of 100% or the equivalent value of payment instruments in amounts of more than US$ 100 thousand or an equivalent value should be effected in United States dollars at the moment in which the operation is registered in Sisbacen. This measure applies to transactions effected as of and including 1.3.2000.

On 12.16.1999, the Trade Defense and Safeguards Monitoring Group was created within the Ministry of Finance and given the task of formulating and coordinating activities related to safeguards and antidumping and compensatory rights, and to international negotiations of these questions.

As far as the impact of exchange policy on foreign trade is concerned, the devaluation of Brazilian currency at the start of the year, the increased cost of contracting foreign resources to be channeled to the country and, later on, the decline in internal interest rates reduced interest in foreign financing of import operations. In this context, Banco Central issued Circular no. 2,876, dated 3.17.1999, introducing a more flexible approach to the requirement for prior contracting of exchange for payment of imports for Import Declarations (DIs) registered as of 3.18.1999. This requirement was maintained only for import financing with maturity terms of up to 90 days. In the previous system, imports financed over period of less than 180 days were obligated to contract exchange with immediate payment while, in operations with terms from 180 to 360 days, the contracting is to be carried out six month prior to the maturity date.

Once this more flexible approach had been introduced, Banco Central issued Circular no. 2,948, dated 10.28.1999, altering Import Regulations and dispensing with the demand for prior contracting of exchange related to the DI's registered as of 10.30.1999. Aside from being in line with the Brazilian government's policy of fostering more liberal capital flows, this measure eliminated a theme of importance from the litigations underway with Argentina, even though imports from the Mercosul countries, Chile and Bolivia were already entitled to differentiated treatment, provided they complied with the following conditions: value of less than US$ 40 thousand for DI's registered up to 2.28.1999, or US$ 80 thousand, as of 3.1.1999; the country of origin must be a signatory of the Laia dispute resolution mechanism; and exchange operations are to be liquidated by the final day of the second month subsequent to the month in which the DI was registered, based on the terms of the Reciprocal Payment and Credit Agreement (CCR). This exception was extended to 6.30.1999 and, at a later date, to 10.29.1999, by Bacen Circulars no. 2,864, dated 2.24.1999, and no. 2,898, dated 6.23.1999. Aside from this, these two norms exempted imports of petroleum and derivatives from the requirement for anticipated exchange contracting, when such goods are financed for periods of up to 360 days, are carried out under the drawback system, are worth less than US$ 10 thousand and involve basic foodstuffs.

With respect to the automotive system, Secex Directive no. 10, dated 9.24.1999, extended to 12.31.1999 from 9.2.1999 the period for obtaining a 50% reduction in the ad valorem rate of the Import Tax on vehicles, within a quota of up to 50 thousand vehicles as stipulated by the automotive agreement (Decree no. 2,770, dated 9.3.1998).

On 12.31.1999, however, the automotive regime terminated without an agreement on vehicles manufactured outside Mercosul. Consequently, import rates with tariff reductions were automatically eliminated. The import tax rate stated in the TEC returned to its full value or, more specifically, 35%. As a matter of fact, since Mercosul does not have a common system for the automotive sector, intrabloc trade is governed by bilateral agreements. For instance, Brazil and Argentina, came to a provisional agreement at the end of 1999 with validity until 2.29.2000, according to which compensation will be made between the two countries in operations involving the marketing of vehicles and will be paid in American dollars. With regard to Uruguay, the Partial Economic Complementation Agreement no. 2, first signed in the Laia framework in the 1980s, is now being applied once again and entitles automotive vehicles to tariff benefits.

Exchange policy

The exchange policy in effect since June 1995 underwent a series of changes in 1999. Up to that point, policy had been oriented to gradual devaluation of national currency based on the system of exchange bands and spread auctions. Banco Central defined exchange rate float bands – the broad band – and committed itself to United States dollar auctions with its dealers whenever these limits were reached. With the broad band, the monetary authority had the option of operating within intraband limits designed to signal interest rate levels more clearly as they shift gradually according to exchange policy guidelines. This orientation, which was structured in such a way as to allow Banco Central to control exchange rates, allowed international reserves to float according to exchange market results: Banco Central purchased exchange resources and increased its reserve position when the market had excess supply and sold reserves when demand for foreign currencies was highest.

Since the start of the Real Plan in July 1994, the country has benefited from strong foreign capital inflows in the form of loans, financing and investments, used to finance the balance of payments and maintain international reserves at a level sufficient to implement exchange policy with relative ease. During periods of international liquidity restrictions, such as the Mexican exchange crisis in 1995 and the 1997 crisis in southeast Asia, utilization of reserves coupled with restrictive monetary policy measures guarantied the desired rate of exchange.

Though they were not sufficient to reverse positive funding flows, the successive crises did act as an alert to foreign investors with respect to the payment capacity of indebted countries and their voluminous balance of payments borrowing requirements. This alert was further amplified by the exchange difficulties faced by Russia in 1998 and was gradually transformed into a loss of confidence soon reflected in a sharp decline in foreign capital inflows in the second half of the year. The Brazilian balance of payments registered a deficit and the net international reserve loss came to US$ 36.1 billion. With IMF disbursement of US$ 9.3 billion – the first installment of the program of financial assistance to Brazil – reserves in the balance of payments concept closed 1998 at US$ 44 billion, after peaking at US$ 74.2 billion in April of the same year.

Expectations in the early days of 1999 with regard to devaluation of the real provoked continued strong demand for foreign currency. In the face of a growing threat to the nation's reserve position, Banco Central altered exchange rate float band limits and issued Communiqué no. 6,560, dated 1.13.1999 and introduced improvements into the band system. With this, the upper and lower limits were set at R$ 1,20 and R$ 1,32 per United States dollar, reflecting a rise of 7.7% in the midpoint and an increase in the difference between the two limits from 8.9% to 10%. The new system determined that the limits would be updated every three days at the average value of the reference sale rate of exchange, PTAX800, and with fixed parameters. In this way, an effort was made to adapt the pace of devaluation of the real to the expectations of agents operating on the exchange market.

However, the rate of exchange moved rapidly toward the upper limit, reaching R$ 1,3195 on 1.14.1999, and the loss of reserves climbed to US$ 3.2 billion, when one considers Banco Central sales with liquidation scheduled for up to 1.15.1999. The possibility of still greater losses led Banco Central to issue Communiqué no. 6,563, dated 1.15.1999 and refrain from intervening, allowing the market to define the new exchange rate level.

On the same day, the rate of exchange shot up to R$ 1,4659 for sale after oscillating between R$ 1,3195 and R$ 1,50 per dollar, equivalent to devaluation of 11.1% on that day and 21.3% in the year. Adoption of the free floating exchange rate was announced formally by Communiqué no. 6,565, dated 1.18.1999, stating that the government would still be entitled to intervene exclusively at the market level and only to avoid excessive oscillations of the rate of exchange over short periods of time.

The new system of exchange resulted in revision of the IMF's program of financial assistance to Brazil, signed in November 1998. The terms of the agreement were adapted to the floating rate exchange system, while the initially scheduled evaluations were moved forward and new performance targets and criteria were defined. The first and second evaluations were performed simultaneously in the first quarter of 1999 and resulted in definition of monthly limits on net Banco Central sales of exchange, including both sales carried out directly and those effected by the institution's agents, for the period from March to June 1999. The fact that new futures and forward exchange market operations were carried out as of the month of March became a performance criterion, according to the terms of the agreement. In the third evaluation, control over net exchange sales was replaced by definition of net international reserve minimum values for the period from July to December 1999. In the fourth evaluation, the minimum values for November and December were revised downward by US$ 2 billion, since Banco Central had managed to fully meet the previous targets.

Graph 5.1
Exchange rate[1/]

1/ Buying and selling rate average (Ptax800).

The limits defined in the financial assistance agreement restricted the space for intervention even in periods of increased uncertainties when the rate of exchange would tend to fluctuate more sharply. In order to avoid overly brusque movements, Banco Central resorted to federal public securities indexed to the United States dollar and, in this way, was able to provide holders of foreign liabilities with the option of protecting themselves against accentuated devaluations, aside from their asset positions in foreign currency. In order to facilitate new issues, Circular no. 2,913, dated 7.21.1999, restricted operations with these papers (NTN-D, NTN-I and NBC-E) on the secondary market when such are acquired with foreign resources contracted for onlending to the agroindustrial sector, real estate sector and export companies. This instrument blocked utilization of these papers until maturity or investment in their respective finalities and prohibited their use in trading operations, including their incorporation into guaranties. Participation of papers with exchange indexing in total federal public securities moved from 18.2% to 26.1% between 1998 and 1999, analyzed on the basis of annual averages.

Table 5.1 - International reserves targeting - 1999 (agreement with IMF)

US$ million

Period	Interventions [1/]		Adjusted net reserves [2/]	
	Intervention limit	Banco Central intervention	Floor	Occurred [3/]
Jan	-	- 8 591	-	26 282
Feb	-	- 412	-	25 800
Mar	-3 000	-1 867	-	24 287
Apr	-2 000	-1 391	-	24 545
May	-1 875	495	-	24 707
Jun	-1 875	250	-	23 224
Jul	-	0	20 800	24 105
Aug	-	- 150	21 600	23 892
Sep	-	0	22 000	24 351
Oct	-	- 50	22 200	23 316
Nov	-	- 425	20 600	25 997
Dec	-	-1 470	21 300	24 000

1/ Targets defined by the Technical Memorandum dated May 1999.

2/ Targets defined by the August and December/1999 Technical Memorandum.

3/ Data cleared at the period.

As defined by Circular no. 2,884, dated 5.6.1999, followed by Circular no. 2,888, on 5.20.1999, Banco Central operations on the exchange market continued restricted to dealers, institutions accredited beforehand to operate on the exchange and public debt securities markets. This instrument states that interventions were to be made through interbank exchange resources purchase or sale operations by Banco Central directly with dealers or through electronic or telephone auctions with simultaneous offers to at least five different dealers. At the same time, Banco Central assumed the commitment to inform the market of its activities according to the terms of Depin Communiqué no. 6,873, dated 5.20.1999, with the purpose of achieving greater transparency in its operations.

During the course of the year, Banco Central issued measures aimed at adjusting market operations to the new exchange policy. Aside from operational factors, these measures were targeted at eliminating bottlenecks in the flow of exchange resources. Exchange positions in the free and floating rate segments were unified as of 2.1.1999, as determined by Resolution no. 2,588, dated 1.25.1999, while no alterations were introduced into the system of registration of these operations in the two market segments. The bought and sold position limits of institutions operating in the free and floating rate segments were redefined for each institution, as the sum total of the limits prior to unification of their positions in the two segments. At the same time, Circular no. 2,858, dated 1.25.1999, doubled the sold position limit in both segments up to the maximum of US$ 22.5 million and US$ 11.3 million in the free and floating rate segments, respectively, corresponding to institutions with adjusted net worth above US$ 100 million. This limit was altered once again by Circular no. 2,860, dated 2.1.1999, to 100% of adjusted net worth of banks authorized to operate on the exchange market. The definition of broader criteria for risk evaluation was consolidated in Resolution no. 2,606 and Circular no. 2,894, dated 5.27.1999, making control of the exchange position of banks a question of secondary importance. These norms defined limits and the system of calculating exposure in gold and assets and liabilities referenced to exchange variations assumed by financial institutions and other institutions authorized to operate by Banco Central. Consequently, Circular no. 2,947, dated 10.28.1999, abolished the sold position exchange limit and consolidated norms regarding the bought position.

The January devaluation increased the difficulties involved in funding and rolling previously assumed commitments and surprised agents holding foreign currency liabilities, producing negative impacts on exchange flows. Measures were adopted with the aim of stimulating funding flows through cost reductions and more flexible periods for contracting funding. Consequently, MF Directive no. 5, dated 1.21.1999, reduced the IOF rate to zero on loans and investments in privatization funds. Banco Central issued Circular no. 2,859, dated 1.2.7.1999, reducing the minimum average amortization term of loans to 90 day. This period had previously been set at 12 months for new loans and 6 months for renewals and extensions. Parallel to these measures, Circular no. 2,862, dated 2.10.1999, permitted financial institutions to finance purchases of goods and services acquired abroad through the use of credit cards. The amount to be financed was set at 40% of the value of the purchase or US$ 10,000, whichever of the two is smallest, applicable to purchases made up to 2.10.1999 and charged on invoices dated from January up to and including April.

On 2.10.1999, Circular no. 2,863, increased the participation quota of Brazilian foreign debt papers in investment funds abroad (Fiex) from 60% to 80%. The purpose here was to reduce the space for low risk securities in the composition of their portfolios, thus discouraging new investments and reducing the outflow volume of Brazilian investments. Finally, Circular no. 2,877, dated 3.17.1999, impeded acquisitions of Fiex quotas by financial institutions and required repatriation of 50% of the resources in portfolios in the following 15 days and the remainder in a maximum of one month.

The IOF rate on fixed income funds, interbank operations and constitution of funding in the country was altered from 2.38% to 0.5% by MF Directive no. 56, dated 3.12.1999. At the same time, the rate on credit card purchases was raised to 2.5%.

Banco Central offered exchange resources to the market in the months of March and April and kept its operations well within the parameters defined in the agreement with the IMF. Improvement in the expectations of economic agents as a result of the success achieved in the first and second revisions of the agreement, coupled with the exchange flow situation, accounted for the downward trajectory in exchange rates in the second quarter of the year to a level of R$ 1,6468 per United States dollar on 5.11.1999, the lowest level since the free floating system was adopted in January.

Foreign market bond placements by the Republic in April indicated an upturn in foreign investor confidence in the Brazilian economy. The first placement of the year prepared the way for placements by both public and private companies, including banks. In July, the Republic issued papers on the eurobond market and, in October, foreign debt renegotiation papers for a new issue of global bonds, with considerable improvement in the foreign debt profile.

Continuing the process of normative adaptation to the floating rate exchange system, Circular no. 2,896, dated 6.9.1999, raised the period for liquidation of purchases of a financial nature to up to 30 days when such operations must be registered at Banco Central. At the same time, this instrument permitted anticipated liquidation of these operations. Financial sale operations also benefited independently of whether their registration at Banco Central is or is not obligatory though, in this case, liquidation prior to maturity of the liability abroad was not permitted. For purposes of control, presentation of documents containing the payment schedule and date of maturity of the obligation is required at the time of contracting. Current purchase and sale operations for investment in variable income papers with obligatory registration at Banco Central continue subject to the three day limit for liquidation. Circular no. 2,926, dated 9.8.1999, expanded the period from 30 days to 60 and refrained from altering any other provisions applicable to this matter. One should note that the more flexible periods for exchange liquidation provided agents with protection against brusque exchange rate fluctuations, making it possible to improve adjustments in payment/reception flows.

On 6.30.1999, Resolution no. 2,614 authorized contracting of forward purchase and sale operations on the interbank market, with a maximum of 360 days for liquidation. This new modality demanded adjustments in the calculation of bought and sold positions based on the terms of Circular no. 2,903, dated 6.30.1999, so as to make it possible to apply the penalties foreseen in regulations for cases in which the limits are exceeded. It was further determined that interbank forward sale operations would be computed for purposes of exchange positions only on the date of their liquidation. The objective of this measure was to attenuate exchange rate volatility by avoiding speculative movements at the time of defining a rate for future liquidation.

At the start of the second half of the year, uncertainties regarding developments at both the internal and external levels, centered on the equilibrium of public sector accounts and increasingly higher United States interest rates, generated additional pressures on exchange. In this scenario, Directive no. 306, dated 8.18.1999, reduced the IOF rate from 0.5% to zero on investments in fixed income funds, interbank operations and constitution of funding in the country, with the objective of encouraging the permanence of these resources in the country.

Several measures were aimed explicitly at rechanneling flows to strategic sectors of the economy. In order to attract foreign resources to the farm sector, Resolution no. 2,622, dated 7.29.1999, allowed nonresidents to operate with crop and livestock products on the commodity and futures markets. The presetting of earnings was prohibited, except in cases expressly authorized by Banco Central.

Resolution no. 2,628, dated 8.11.1999, determined that the resources resulting from investments in Appendices I to IV (Resolution no. 1,289/1987) could be channeled into fixed income investments, until such time as they are employed in their specific ends. Repatriation of these resources depends on investment in variable income operations for at least one day or maintenance of these resources in current account for at least 15 days as of redemption.

Insofar as the export sector is concerned, Circular no. 2,919, dated 8.18.1999, increased the term for prefinancing provided to exporters from 180 days to 360 days from the date of shipment of the merchandise.

Normative adjustments and disciplinary measures on the exchange market were mostly announced in the first half of 1999. At the end of the year, Resolution no. 2,683, dated 12.29.1999, granted financial institutions and leasing companies the option of contracting resources abroad for free investment on the domestic market and eliminated the demand for minimum terms in foreign loan operations. This benefit applies to operations carried out as of 1.3.2000. Circular no. 2,956, dated 12.29.1999, altered the system and form of preparing requests for prior authorization and registration of foreign loans, effective as of 1.3.2000. With issue of this instrument, requests for prior authorization and registration of the aforementioned operations were consolidated into a single document.

In 1999, Banco Central acted as a supplier of exchange resources. The rate of exchange came to R$ 1,789 on 12.31.1999, equivalent to 48% nominal devaluation of the real in comparison to the previous year.

Exchange movement

In 1999, exchange market operations declined in relation to previous years. Both trade and capital flows decreased during the course of the year, as total turnover – the sum of the revenues and expenditures of the free and floating rate segments – totaled US$ 272.1 billion, compared to US$ 338 billion in 1998.

With respect to the free rate segment, export exchange contracting operations dropped by 12.8%. This movement is explained by the physical result of external sales, with a reduction of 6.1%, and by the decrease that has occurred since August 1998 in the volume of available credit. The scarcity of credit continued into the first half of 1999, a period of more restrictive cost conditions, and generated a negative impact on such short-term export credits as advances on exchange contracts (ACC) and anticipated payments of exports (PA). Together, these modalities accounted for 88% and 82% of total 1997 and 1998 contracting operations, as compared to just 72% in 1999. With this result, the negative difference between contracted exchange and shipments of exports worsened, growing from a level of US$ 3.4 billion in 1998 to US$ 6.4 billion in 1999, reflecting a lesser supply of resources on the exchange market.

In the case of imports, exchange contracting operations dropped by 25.1% while unloading operations dropped by 14.8%. The reduction in exchange sale operations was caused not only by lesser foreign purchases but also by elimination, effective as of March, of the requirement for anticipated exchange contracting in import operations with payment terms of less than 360 days. From March to October, the anticipated contracting requirement applied only to imports with payment periods of less than 90 days and, from that point forward, was eliminated entirely. With the reduction in payment periods, it was expected that contracting operations would also decline, at least in the months immediately following adoption of this measure. And it was precisely this that occurred, as lesser demand for exchange had an impact on the exchange market that was precisely the contrary of what had happened in terms of export operations. Since the reduction in demand was more accentuated than the drop in supply, the surplus in trade-related exchange contracting operations came to US$ 8.7 billion in 1999, far surpassing the previous month’s total of US$ 3.8 billion.

Financing-related exchange operations declined in 1999. The most accentuated reduction occurred under purchase operations, with a deficit of US$ 13.8 billion, compared to a surplus of US$ 13.5 billion in 1998. A significant reduction occurred in the inflow of foreign portfolio investments and disbursements of medium and long-term loans. Taken

Table 5.2 - Exchange movement - free rate market

US$ million

Period	Commercial			Financial			Global
	Exports	Imports	Balance	Buying	Selling	Balance	balance
1997	55 887	58 545	-2 658	102 820	83 090	19 730	17 071
1998	47 735	43 903	3 833	121 504	108 032	13 472	17 305
1999	41 641	32 905	8 736	87 012	100 788	-13 776	-5 040
Jan	2 854	2 656	198	5 135	11 828	-6 693	-6 495
Feb	3 266	2 424	842	7 678	10 717	-3 040	-2 198
Mar	3 924	3 355	570	8 538	11 577	-3 039	-2 469
Apr	3 266	2 573	693	8 128	7 875	254	946
May	3 811	2 485	1 326	8 762	6 929	1 834	3 160
Jun	3 440	2 569	871	6 994	8 768	-1 774	- 902
Jul	3 230	2 368	862	8 151	8 324	- 173	689
Aug	3 563	2 298	1 264	4 833	5 788	- 956	309
Sep	3 373	3 057	315	6 278	5 968	310	625
Oct	3 622	2 959	663	5 877	6 931	-1 054	- 391
Nov	3 367	3 031	336	5 034	5 603	- 568	- 232
Dec	3 925	3 130	796	11 603	10 480	1 122	1 918

together, these factors almost entirely explain the lesser volume of purchases. In terms of sales, there was a reduction of US$ 7.2 billion in contracting operations due to the more accentuated drop in outflows of foreign portfolio investments, which offset the increase in contracting operations caused by larger payments of foreign service obligations.

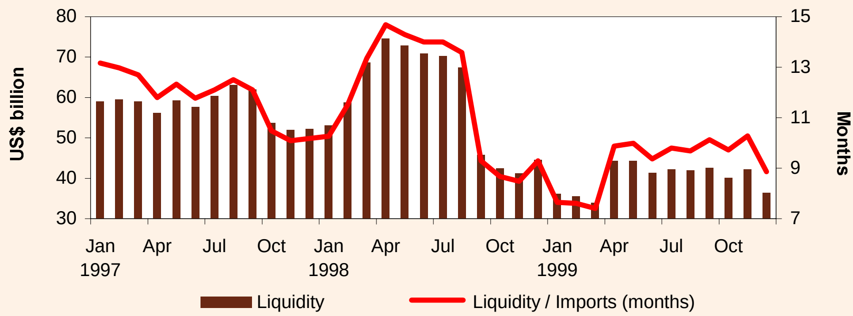
With respect to the floating rate segment, the deficit declined from US$ 7 billion in 1998 to US$ 941 million as a result of a drastic reduction in spending on international travel in 1999. The overall balance of exchange operations in the year closed with a deficit of US$ 6 billion.

International reserves

Banco Central exchange market interventions in periods of greater exchange rate volatility followed the parameters outlined in the program of financial assistance to Brazil. Approximately 90% of net Banco Central exchange market sales in 1999 were concentrated in the early part of the year. When one considers the turbulence that characterized the market in January and the process of normative and operational adjustment to the new exchange policy reality in the following months, it is clear that the first four months of the year were the most critical phase. In May and June, the net result of monetary authority interventions was a surplus generated by the supply of exchange offered by the market and by the banks.

Inflows of resources through the program of financial assistance and foreign resources contracted by the National Treasury played an important role in maintaining the reserve level, which reached its low point in January (US$ 36.1 billion, in the international liquidity concept) as a result of the volume of exchange injected into the market, and its highpoint in April (US$ 43.3 billion), as a result of the release of the second installment under the assistance agreement and revenues on foreign market placement of Bonds of the Republic.

Graph 5.2
International reserves



In December 1999, international reserves totaled US$ 35.6 billion and US$ 36.3 billion in the cash and international liquidity concepts, respectively, corresponding to declines of US$ 8.1 billion and US$ 8.2 billion, in relation to December 1998.

Banco Central interventions in the domestic exchange market generated a reduction of US$ 13.6 billion in the reserve position. External operations accounted for incorporation of US$ 5.5 billion due above all to net inflows of resources through the Financial Assistance Program (US$ 3.1 billion), bond operations (US$ 1.9 billion) and incorporation of interest on deposits of foreign reserve resources (US$ 1.3 billion). On the other hand, payments to the Paris Club totaled US$ 1.7 billion.

Balance of payments

The 1999 balance of payments registered a differentiated pattern of transactions with the rest of the world, when compared to previous years. In the period in which the exchange system was still based on bands and intrabands, the balance of payments registered large surpluses and deficits, with strong upward and downward movements in the nation's international reserve position. Once the floating rate system had been adopted, Banco Central practically ceased intervening in the foreign currency market and fluctuations in reserve levels became much less intense. In other words, the balance of payments result has tended to adjust itself through rates of exchange, with little need for using reserves as a financing instrument.

Table 5.3 - Balance of payments

US$ million

Itemization	1998			1999		
	1st half	2nd half	Year	1st half	2nd half	Year
Trade balance - FOB	-1 840	-4 754	-6 593	- 619	- 589	-1 207
Exports	25 982	25 158	51 140	22 451	25 560	48 011
Imports	27 821	29 912	57 733	23 070	26 149	49 219
Services (net)	-12 424	-16 377	-28 801	-12 684	-12 523	-25 207
Interest	-5 214	-6 734	-11 948	-7 706	-7 457	-15 164
Other services 1/	-7 210	-9 643	-16 853	-4 977	-5 066	-10 043
Unrequited transfers	875	903	1 778	1 090	951	2 040
Current transactions	-13 388	-20 227	-33 616	-12 213	-12 161	-24 374
Capital	36 900	-16 236	20 664	1 314	10 734	12 048
Investment (net) 2/	16 010	4 612	20 622	13 981	16 169	30 150
Medium- and long-term financing	27 824	5 247	33 072	-6 740	1 071	-5 669
Disbursements	37 510	26 240	63 749	21 423	22 457	43 880
Financing	12 452	9 701	22 153	8 247	7 669	15 917
Foreign	12 414	12 494	24 908	8 506	7 993	16 500
Brazilian	39	-2 793	-2 755	- 259	- 324	- 583
Currency loans	25 057	16 539	41 596	13 176	14 788	27 963
Foreign commercial banks	4 293	1 460	5 752	1 223	1 460	2 683
Others 3/	20 765	15 079	35 844	11 953	13 328	25 280
Amortizations	-9 685	-20 992	-30 677	-28 163	-21 386	-49 549
Paid	-9 685	-20 992	-30 677	-26 969	-18 383	-45 353
Refinancing	0	0	0	-1 193	-3 003	-4 196
Short-term capital	-6 460	-24 711	-31 171	-4 639	-5 225	-9 864
Other capital	- 475	-1 385	-1 859	-1 288	-1 280	-2 569
Errors and omissions	-4 725	392	-4 333	- 437	2 023	1 586
Surplus (+) or deficit (-)	18 786	-36 072	-17 285	-11 336	596	-10 740
Financing	-18 786	36 072	17 285	11 336	- 596	10 740
Assets (- = increase)	-18 734	26 704	7 970	2 915	4 907	7 822
Liabilities - IMF	- 10	15	5	- 11	0	- 11
Short-term liabilities	- 42	28	- 14	- 37	0	- 37
Arrears	0	0	0	0	0	0
Others	- 42	28	- 14	- 37	0	- 37
Exceptional financing	0	9 324	9 324	8 469	-5 503	2 966

1/ Includes reinvested earnings.
2/ Includes reinvestments.
3/ Includes bonds, commercial paper, fixed/floating rate notes, securitization and intercompany loans.
In 1999, includes US$ 3 billion in debt swaps (bonds).

The 1998 result reflected the worsening of foreign financing conditions that followed the August foreign debt moratorium decree by Russia. Net outflows of foreign capital, particularly in the form of portfolio investments, and remittances of dividends and bonuses, became more accentuated, particularly as a result of losses suffered by investors in countries attempting to cope with exchange crises. These movements provoked a strong impact on the Brazilian balance of payments which registered a deficit of US$ 36.1 billion in the second half of the year. In September alone, the deficit came to US$ 21.7 billion.

The change in interest rate levels altered the composition of Brazilian foreign accounts, principally in terms of trade in goods and services not related to income. The current account deficit declined from US$ 33.6 billion in 1998 to US$ 24.4 billion in 1999.

Balance of trade

In 1999, the Brazilian trade flow was impacted by the financial and economic crisis that affected many of the countries that have a significant level of trade operations with Brazil. Exports were impacted by the decline in world demand and, principally, by the drop-off in the international prices of some of the most important Brazilian export products. Since these factors occurred at a time of a significant shift in the level of Brazilian exchange rates, there was no way in which their adverse impacts could be neutralized.

Prices dropped by 12.8%, resulting in a revenue reduction of 6.1%. The impact of the reduction in the prices of basic farm products can be evaluated on the basis of the difference between the effective value of exports and their value at average 1998 export prices. For the major farm commodities, the difference came to US$ 3 billion in 1999, with a reduction of 17.2% in average prices and an increase of 12.3% in volume exported. In the case of the three major products – coffee beans, unrefined soybean oil and sugar

Table 5.4 - Export price and quantum indices

% Change over the same period of the previous year

Itemization	1998		1999	
	Price	Quantum	Price	Quantum
Total	-6.8	3.5	-12.8	7.7
Primary products	-16.1	6.7	-16.1	8.7
Semimanufactured goods	-7.7	3.6	-15.7	16.8
Manufactured goods	-1.4	2.0	-10.8	4.3

Source: Funcex

– the difference closed at a level between US$ 840 million and US$ 931 million, reflecting a reduction of more than 20% in average prices and an increase of more than 27% in the exported volume of coffee and sugar, together with a slight decline in soybean exports. Simulations indicate that, in overall terms, exports would have expanded by US$ 4.1 billion if prices had remained constant.

Table 5.5 - Exports - FOB
Price changes effects of the main agricultural commodities
Selected items
US$ million

Itemization	Value			Average Price	Quantum
	At 1999 current prices	At 1998 prices 2/	Difference	% Change 1/	% Change 1/
Total exports	48 011	52 088	4 077	- 5.5	- 0.7
Main agricultural commodities	12 291	15 261	2 970	- 17.2	12.3
Coffee	2 441	3 282	840	- 25.6	27.3
Soybean	3 784	4 716	931	- 19.8	- 1.0
Sugar	1 911	2 809	898	- 32.0	44.5
Others	4 155	4 455	300	- 4.1	10.0

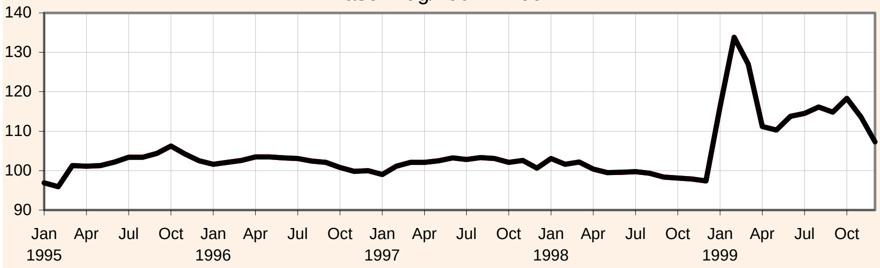
Source: MDIC/Secex
1/ 1999 over 1998.
2/ Corresponds to the quantum exported in 1999 multiplied by the average price of the products exported in 1998.

Several products did manage to register export growth during the course of the year. This fact, coupled with a greater volume of exports, tended to attenuate the reduction in overall exports in comparison to the previous year. Following a decline of 13.6% in the first half of the year, 1999 closed with an overall reduction of 6.1%. In December – a month in which these operations traditionally decline – exports hit their highest level since July of the previous year and accounted for the first December trade surplus since 1993.

The volume of exports expanded by 7.7%, as a result of the higher profitability generated by alterations in the nation's exchange system.

According to Funcex calculations, the profitability index in reals increased by 16.6% in 1999, when compared to 1998. Profitability peaked in the first quarter and then moved into a downward curve as a result of the effects of exchange devaluation on domestic prices, particularly in the wholesale sector.

Graph 5.3
Export profitability index
Base: Aug/1994 = 100

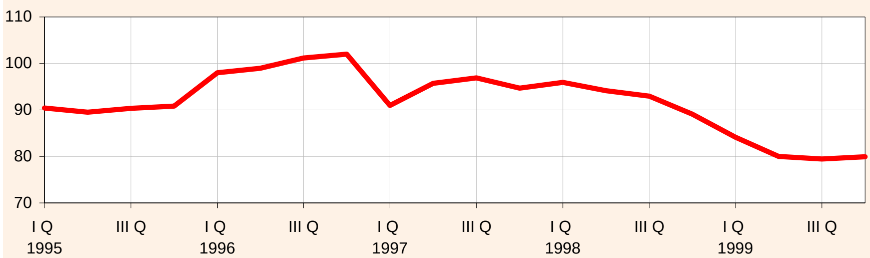


Source: Funcex

In terms of the growth pattern registered in the year, the behavior of imports was similar to that of exports. These operations literally plunged in the first half of the year immediately following devaluation (17.1%), before beginning to level off. The final result for the year was a decrease of 14.7%. In the second half of the year, the international situation showed its first signs of a return to normalcy. The result was an upturn in the confidence level of internal economic agents, thus offsetting the effects of devaluation. Another factor that contributed to curtailing the decline in imports was the gradual but steady increase in 1999 petroleum prices, as a consequence of the output reductions agreed upon by the OPEC member countries.

The external environment was reflected in terms of trade, which deteriorated as of the second half of 1998, with reductions in the prices of standardized merchandise, listed on the futures exchanges, together with the overall deceleration in the world economy and a rise in 1999 international oil prices. As a matter of fact, in the period from 1997 through the first half of 1998, the terms of trade index remained relatively stable at a level 5% below the 1996 average, before dropping 17.2% in relation to that level in the third quarter of 1999. In the fourth quarter of the year, however, the terms of trade index registered the first signs of a reversal in the downward trend, generated by an upturn in the prices of some of the standardized merchandise exported by Brazil.

Graph 5.4
Index of exchange terms[1/]
Base: average of 1996 = 100

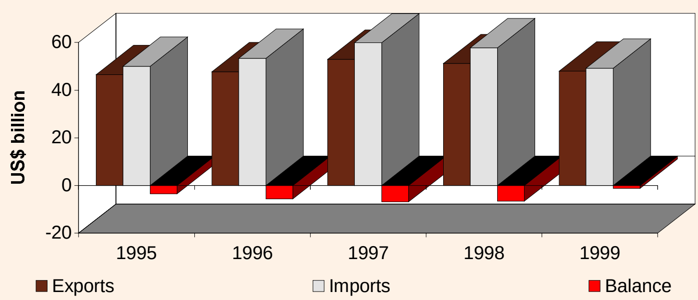


1/ Seasonally adjusted by Bacen.
Source: Funcex

Consequently, at the same time in which trade flows declined, the deficit decreased from US$ 6.6 billion in 1998 to US$ 1.2 billion in 1999. This result was produced by a drop of 6.1% in foreign sales, which fell from US$ 51.1 billion in 1998 to US$ 48 billion in 1999, and a reduction of 14.7% under imports, which closed 1999 at US$ 49.2 billion, as compared to US$ 57.7 billion in 1998.

Foreign sales of basic products came to US$ 11.8 billion in 1999, for a reduction of 8.8% in relation to 1998. With this result, the participation of these goods dropped from 25.4% to 24.6%. This category was directly affected by the reduction in the international prices of major type of standardized merchandise, particularly in the first half of 1999. This decrease was not offset by corresponding volume increases. In the year under analysis, the monthly basic product price index average dropped by 16.1%, when seen against the 1998 result, while the volume index increased by 8.7%.

Graph 5.5
Brazilian foreign trade - FOB



Source: MDIC/Secex

The products of greatest weight among Brazil's foreign sales registered the sharpest export declines in 1999. Here, one should cite revenues on iron ore, with US$ 2.7 billion, for a reduction of 15.6% in comparison to 1998; soybeans, with US$ 1.6 billion, a decrease of 26.9%; soy meal, with US$ 1.5 billion, a drop of 14.1%; tobacco in leaf, with US$ 884 million, a falloff of 6%; and coffee beans, with a total of US$ 2.2 billion, a reduction of 4.4%.

At the same time, however, other basic products turned in positive growth in exported volume and managed to offset the drop in prices and generate significant revenue increases. Among these products, the most important were foreign sales of chicken meat and beef in natura, with exported volume increases of 25.8% and 86.4%, respectively, in comparison to 1998, while revenues expanded by 18.5% and 60.5% to US$ 875 million and US$ 444 million, in the same order.

Semimanufactured products responded more rapidly to improvements in the world economy and, particularly, to the economic upturn among the countries of Asia and the European Union (EU), and to the continued robustness of the United States economy.

Table 5.6 - Brazilian exports - FOB

US$ million

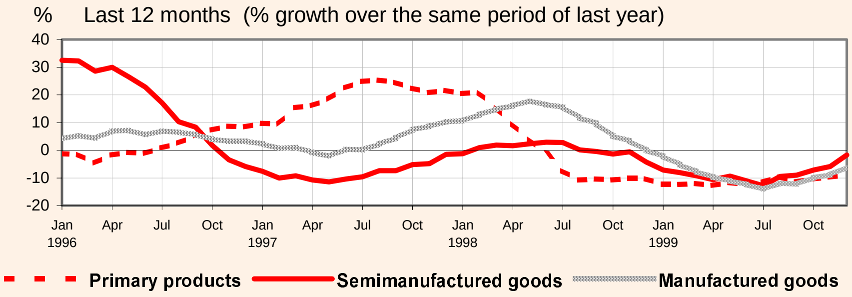
Itemization	1995	1996	1997	1998	1999
Total	46 506	47 747	52 994	51 140	48 011
Primary products	10 969	11 900	14 474	12 976	11 828
Industrial products	34 709	35 025	37 676	37 507	35 312
Semimanufactured goods	9 146	8 612	8 478	8 120	7 981
Manufactured goods	25 563	26 413	29 198	29 387	27 330
Special transactions	828	822	844	656	872

Source: MDIC/Secex

Growth of 16.8% in the volume of exports was the major factor in the revenue reduction of just 1.7% to a total of US$ 8 billion, since prices dropped by 15.7%, the sharpest drop among the aggregate factor categories. Revenues on foreign sales recovered sharply, moving from a decline of 12.6% in the first quarter of 1999 to positive growth of 18.1% in the final quarter.

Graph 5.6

Exports by aggregate factor - FOB



Source: MDIC/Secex

Despite the price decline, several semimanufactured products registered revenue growth in 1999. A case in point was sugar, with exports of US$ 1.2 billion, or 6% more than in the preceding year. This result reflected growth of 63.3% in the volume of sales, particularly to Canada, Malaysia, Russia and Bulgaria, and a drop of 35.1% in prices. In the same sense, foreign sales of sawn wood came to US$ 497 million, for growth of 21.3%, with expansion of 34.8% in the volume of sales and a 10% drop in average prices. Other products that deserve mention are aluminum alloys with sales of US$ 185 million, for growth of 99%, based on a volume increase of 112% and a reduction of 6.2% in prices; rubber, with sales of US$ 100 million, for growth of 5%, based on a volume increase of 32.7% and a price reduction of 20.9%.

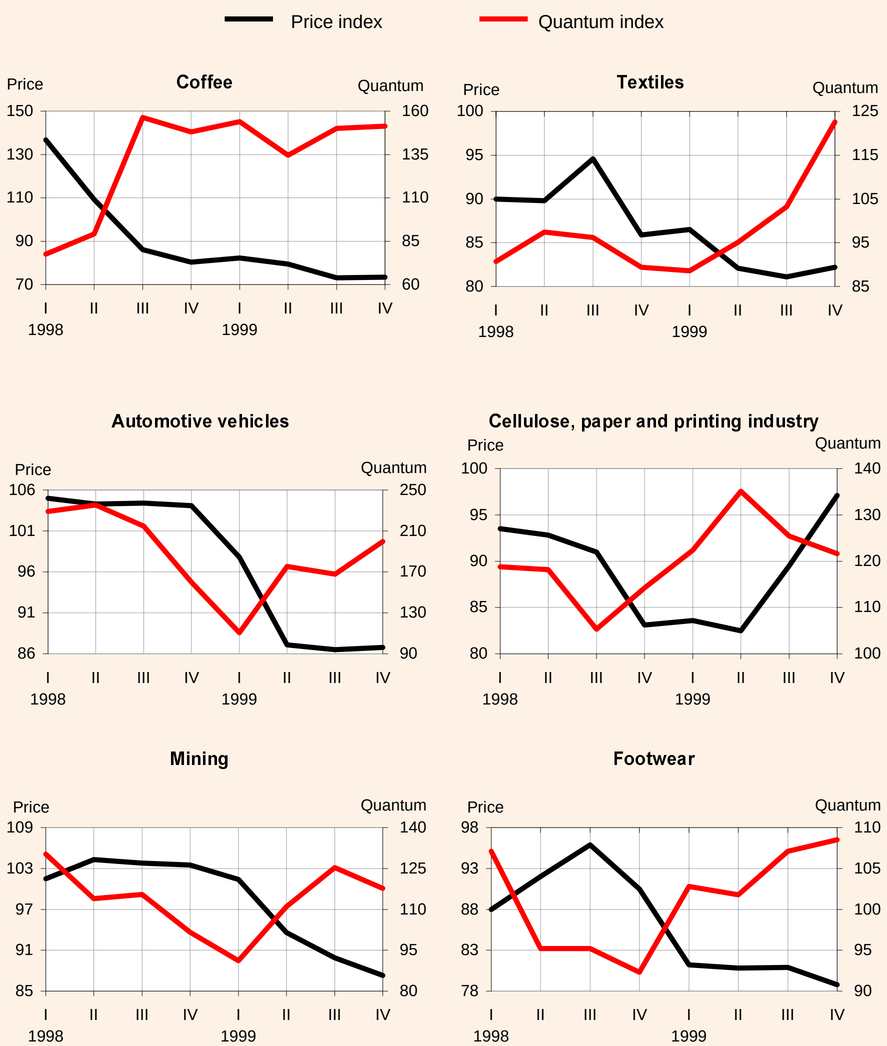
One should stress that foreign sales of cellulose, the major item among Brazil's exports of semimanufactured goods, came to US$ 1.2 billion or 18.5% more than in 1998, with growth of 10.9% in volume and 6.9% in average prices. Foreign sales of nickel cathodes, which came to US$ 70 million, for growth of 91.4% over the 1998 position, turned in growth of 16.7% and 64%, respectively, under prices and volume.

However, in the cases of several semimanufactured products, the volume increase was not sufficient to maintain or increase export revenues. Consequently, foreign sales of unrefined aluminum, which came to US$ 863 million, dropped by 0.8%, based on growth

Graph 5.7

Quarterly price and quantum indices of Brazilian exports

Base: average of 1996 = 100



Source: Funcex

of 4.4% in quantity and a reduction of 5% in prices. Iron and steel semimanufactured goods turned in revenues of US$ 1.1 billion, for a reduction of 12.79%, reflecting volume growth of 17.6% and a 25.7% drop under prices; revenues on sales of soybean oil came to US$ 564 million, with a drop of 22%, based on growth of 7.9% under volume and a cutback of 27.8% in prices; sales of iron alloys totaled US$ 408 million, for a 5.1% reduction, with growth of 7.6% under volume and a drop of 11.8% in prices.

Parallel to these results, reductions were registered in both the prices and volume of several products. Among the highlights were leather and hides, with exports of US$ 594 million, a decline of 9.5% in relation to the previous year with drops of 6.3% under volume and 3.5% under prices; semimanufactured gold, with US$ 348 million, for a drop of 10.2%, based on a 4.1% decline under volume and 6.4% in prices; cast iron and pig iron, with revenues of US$ 322 million, reflecting a 5.7% reduction in quantity and a drop of 25.4% under prices.

Exports of manufactured goods, including special operations, came to US$ 28.2 billion in 1999, reflecting a drop of 6.1% in relation to the previous year. Based on Funcex figures, analysis of this result shows a price drop of 10.8%, with growth of 4.3% in the volume of foreign sales. A major share of demand for this category of products is centered in the countries of Latin America and, particularly, the Mercosul member nations. With the recession that hit these nations, demand dwindled rapidly in most of these nations. Consequently, the increase in exported volume reflected a channeling of a greater share of production to other trading partners together with the opening of new markets, made possible by the enhanced competitiveness of Brazilian manufactured goods.

Among the major manufactured goods, the sharpest reductions in foreign sales were concentrated in the segment of consumer goods, mostly in automotive industry products and, to a great extent, were caused by decreased demand among Latin American nations, particularly Argentina, Brazil’s second largest trading partner. In the automotive industry, the most important export products were parts, with sales of US$ 1.2 billion, reflecting a reduction of 14%, passenger cars with a total of US$ 1.1 billion, -29.7%, automobile engines, US$ 1 billion, -6.9%, cargo vehicles, US$ 626 million, -38.5%, and car chassis and automobile bodies, with US$ 216 million, for a reduction of 39.9%.

Among other consumer goods of importance to Brazil’s 1999 exports, foreign sales of footwear came to US$ 1.3 billion, reflecting a decline of 3.2%, while those of orange juice totaled US$ 1.2 billion, a drop of 2.2%, sales of refined sugar closed at US$ 748 million, for a decline of 11.7%, and marketing of instant coffee came to US$ 211 million, a drop of 14.1%.

Exports of manufactured products expanded in relation to 1998. Among the various products included, one should highlight sales of aircraft, the third most important product among Brazilian foreign sales, with a total of US$ 1.8 billion, or 52.9% more than in 1998. The leading markets were the USA (65.5%) and the EU (20.9%). Foreign sales of transmission/reception equipment totaled US$ 760 million, with growth of 24.8%, followed by tires with US$ 511 million, corresponding to growth of 1.5%, furniture with US$ 383 million, an increase of 13.9%, plywood, with a total of US$ 345 million, for growth of 73.2%, beef products, with US$ 318 million, and growth of 7.4%, and data processing machines, US$ 305 million, corresponding to 41.2% positive growth.

Imports came to US$ 49.2 billion in 1999, for a reduction of 14.8% in relation to the previous year. This decrease reflects a drop of 15.0% in the volume of imports and a price rise of 0.3%, based on figures released by Funcex.

Table 5.7 - Brazilian imports - FOB

US$ million

Itemization	1995	1996	1997	1998	1999
Total	49 972	53 346	59 837	57 733	49 219
Consumer goods	10 927	9 758	11 137	10 712	7 356
Durable	6 094	4 586	5 651	5 242	3 182
Non-durable	4 833	5 172	5 486	5 470	4 174
Raw materials	22 382	24 742	26 998	26 813	24 051
Fuels and lubricants	5 217	5 929	5 597	4 107	4 257
Capital goods	11 446	12 918	16 104	16 101	13 555

Source: MDIC/Secex

Among imported products, consumer goods were the category most severely impacted by the exchange devaluation and declining 1999 domestic demand. Not only are these products less essential, they are also more easily substituted by similar national products, particularly in recent years as greater investments have resulted in higher quality goods. This tendency has been strongest in the automotive sector.

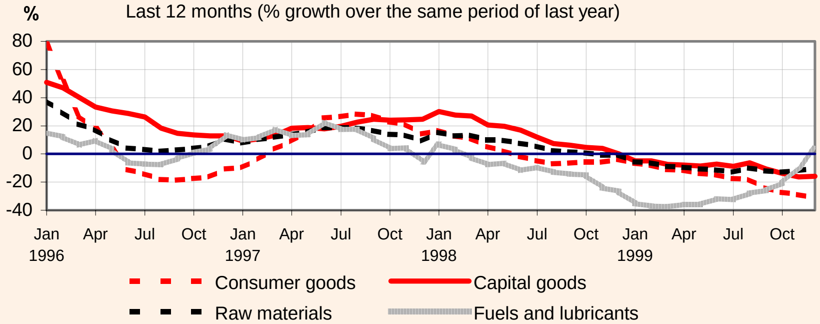
As a result, imports of consumer goods came to US$ 7.4 billion, for a decline of 31.3% in relation to 1998. This decrease was most intense under consumer durables, as imports totaled US$ 3.2 billion, a reduction of 39.3% in the year. The negative performance of consumer durables resulted from a drop of 49.7% in imported volume and an increase of 2.3% in prices. This was the smallest high registered among all the different use categories.

In the case of consumer durables, the most important were foreign purchases of passenger cars which, despite a drop of 54.7%, still accounted for 41% of the total, and losed at US$ 1.2 billion, followed by articles of adornment and personal use, with US$ 655 million, for a reduction of 16.2%; parts and spares for durable consumer goods, with US$ 505 million, a drop of 10.1%, and machines and apparatuses for household use, with an overall total of US$ 424 million, a decrease of 37.7%.

Graph 5.8

Brazilian imports by sector - FOB

Last 12 months (% growth over the same period of last year)



Source: MDIC/Secex

Imports of nondurable consumer goods totaled US$ 4.2 billion in 1999, a drop of 23.7% in relation to 1998. This figure resulted from declines of 22.6% in imported volume and 4.6% in prices, according to Funcex indices. The most important items in this grouping were foodstuffs, with a total of US$ 1.7 billion, for a reduction of 34.1%, and pharmaceutical goods, with US$ 1.2 billion, reflecting growth of 19.3%, mostly as a consequence of federal government purchases.

Imports of raw materials registered a lesser decline than both consumer goods and capital goods, and turned in steady improvement throughout the year, keeping pace with the gradual upturn registered by the major domestic economic indicators. This is evident in the figures that show declines of 19.5% in the first quarter, 13.6% in the second and 9.1% in the third, followed by positive growth of 0.7% in the final quarter of the year. For the year, imports of raw materials came to US$ 24.1 billion or 10.3% less than in 1998.

Table 5.8 - Import price and quantum indices

% Change over the same period of the previous year

Itemization	1998		1999	
	Price	Quantum	Price	Quantum
Total	-5.3	1.8	0.3	-15.0
Capital goods	0.3	-2.9	1.2	-20.0
Intermediate goods	-4.9	5.0	-1.6	-8.4
Durable consumer goods	3.0	-4.3	-2.3	-49.7
Non-durable consumer goods	2.4	0.4	-4.6	-22.6
Fuels and lubricants	-31.9	2.3	20.6	-7.5

Source: Funcex

This performance was based on a reduction of 8.4% in imported volume and 1.6% in prices, according to figures released by Funcex.

Among imports, the largest reductions were registered under nonfood farm products (22.4%) and primary food products (24.1%), with respective totals of US$ 2.2 billion and US$ 1.7 billion. Other items of importance were imports of chemical and pharmaceutical goods, with US$ 7.3 billion, reflecting a decline of 5.6%, mineral products, with a total of US$ 3.7 billion, a reduction of 5.5%, transportation equipment accessories, with US$ 3.6 billion, a drop of 6.4%, and intermediate parts and spares, with US$ 3.4 billion, corresponding to a decline of 4.4%.

The largest lag in terms of response to changes on the economic scenario, including the exchange system alteration and the upturn in economic growth, was registered under imports of those capital goods that are marked by greater technological complexity and, consequently, are harder to substitute with nationally manufactured equivalents. Funcex data reveal, however, that despite this fact, the decline in the imported volume of capital goods in relation to 1998 came to 20%, while prices rose by 1.2%, a rate surpassed only by fuel prices.

Consequently, in the first quarter of the year, imports of capital goods dropped by 14.5%, or less than in the cases of raw materials and consumer goods. In the second quarter, the decline dropped to 5.2%, due to an exceptional inflow of industrial machinery in June, before rising to 20.2% in the third quarter and 23% in the final quarter of the year. To some extent, this reduction is explained by intense expectations as to publication of a Ministry of Finance directive itemizing new products to be included among capital goods entitled to import tax reductions, designated ex-tariff. The directive was finally issued on January 12, 2000.

Among capital goods, the most important were industrial machinery, with exports of US$ 4.8 billion in 1999, a reduction of 13.8%; office machines and apparatuses, with US$ 2.2 billion, a decline of 18.2%, parts and spares for industrial capital goods, totaling US$ 1.5 billion, a drop of 9.5%, and movable transportation equipment, with US$ 1.3 billion, a falloff of 30.8%.

Imports of fuels and lubricants were strongly impacted by the rapid and continuous rise in petroleum prices in the wake of the production quota agreement among Opec countries. Despite the decline of 17.1% in the volume of petroleum imports, outlays increased by 10.4% and came to US$ 2.2 billion in 1999. A comparison of the month of December with the same period of the previous year shows that the volume of imports increased by 93.7%, while outlays increased by 344%, a figure that clearly reveals strong growth in the prices of imported goods. Total imports under this grouping came to US$ 4.3 billion, or 3.7% more than in 1998, with growth of 20.6% in prices and a reduction of 7.5% in volume, according to Funcex figures.

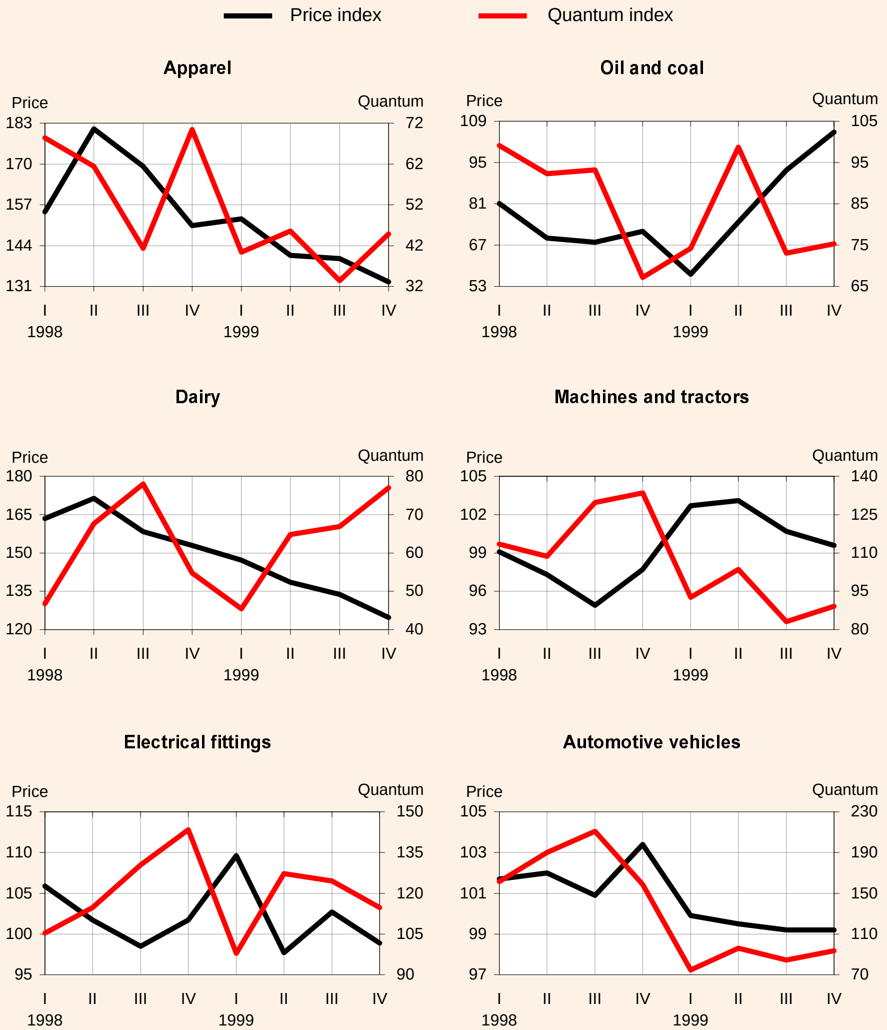
The international economic crisis dampened trade flows with the country's major trading partners. Demand for Brazilian goods underwent differentiated impacts, with increases in those countries that were able to achieve economic growth in the period, such as the United States and Mexico, and cutbacks in those most strongly affected by the crisis, particularly in the Latin American nations.

On the other hand, Brazilian imports declined from practically all of the nation's major partners, as a result of the January exchange devaluation and expectations of a recession in the early months of the year. The only markets from which Brazil increased its imports were Venezuela, a major exporter of petroleum, and France and South Korea.

Graph 5.9

Quarterly price and quantum indices of Brazilian imports

Base: average of 1996 = 100



Source: Funcex

Exports to the Laia countries, including Venezuela, dropped by 21.3% to a total of US$ 10.5 billion, particularly as a result of cutbacks in exports of semimanufactured and manufactured products. Imports decreased by 23.5% and closed at US$ 9.5 billion, registering slight improvement in the Brazilian trade surplus with this bloc, with an increase from US$ 970 million to US$ 1 billion.

The Mercosul countries acquired a total of US$ 6.8 billion in Brazilian products, approximately 65% of the Laia total, and exported merchandise worth US$ 6.7 billion to Brazil, corresponding to a drop from 76% to 71% of total imports originating in the Laia bloc. With this, the trade balance in operations with Mercosul improved, moving from a deficit of US$ 546 million to a surplus of US$ 57 million. For the most part, this result was due to trade with Argentina. Exports to that country totaled US$ 5.4 billion and imports from Argentina came to US$ 5.8 billion, corresponding to a reduction of US$ 833 million in the trade deficit in comparison to the 1998 results.

There is a direct relation between trade with Argentina and the January 1999 devaluation of the real, which led to a sharp drop in trade flows between the two nations, with reductions of 20.5% in exports and 27.6% under imports.

Among the major products exported to Argentina in 1999, the lead position was held by transportation equipment. In general terms, this sector registered an across-the-board drop in sales, particularly under parts, with exports of US$ 363 million, for a reduction of 34.2% in relation to 1998, passenger cars, with US$ 341 million and a drop of 46.7%, cargo vehicles, with US$ 292 million, for a cutback of 48%, and automobile engines, with US$ 165 million, a drop of 37.8%. However, at the same time, sales of other important manufactured goods increased, particularly transmission/reception equipment, with a total of US$ 175 million, and data processing equipment, with US$ 154 million, for respective growth rates of 62% and 86.8%.

Insofar as imports from Argentina are concerned, passenger cars totaled US$ 599 million, for a decline of 60.8%, and cargo vehicles came to US$ 384 million, for a reduction of 46.8%, while auto parts totaled US$ 223 million, corresponding to a cutback of 12.3%. Growth was registered under such goods as wheat (7.1%) and milk and cream (28.6%), both of which are traditionally imported from Argentina. Mention should also be made of the reduction in imports of petroleum from Argentina, which totaled US$ 396 million, for a reduction of 18.1%, notwithstanding the scenario of steadily expanding prices that marked 1999.

Trade flows with Paraguay and Uruguay, both of which are also Mercosul partners, fell sharply during the year, with respective reductions of 40.4% and 24% under exports and 25.7% and 38%, under imports, resulting in a US$ 415 million reduction in the trade surplus with Paraguay and transformation of the US$ 162 million deficit in operations with Uruguay into a surplus of US$ 23 million.

Table 5.9 - Brazilian trade by area - FOB

US$ million

Itemization	1998			1999		
	Exports	Imports	Balance	Exports	Imports	Balance
Total	51 140	57 733	-6 593	48 011	49 219	-1 207
EFTA	360	1 149	- 789	389	966	- 577
Laia[1/]	12 620	11 601	1 019	9 958	8 475	1 482
Mercosur	8 878	9 424	- 546	6 778	6 721	57
Argentina	6 748	8 031	-1 283	5 364	5 814	- 450
Paraguay	1 249	350	899	744	260	484
Uruguay	881	1 042	- 162	670	647	23
Chile	1 024	817	208	896	717	180
Mexico	1 002	983	19	1 068	618	450
Canada	544	1 338	- 794	513	973	- 460
European Union	14 748	16 850	-2 102	13 736	14 984	-1 248
Germany	3 006	5 239	-2 232	2 544	4 713	-2 169
Belgium/Luxembourg	2 195	718	1 477	1 817	493	1 324
Spain	1 056	1 195	- 139	1 169	1 179	- 10
France	1 229	1 971	- 742	1 200	1 989	- 789
Italy	1 931	3 230	-1 299	1 845	2 593	- 747
Netherlands	2 745	697	2 048	2 594	594	2 000
United Kingdom	1 339	1 488	- 149	1 437	1 222	216
Others	1 246	2 312	-1 066	1 129	2 201	-1 072
Central and Eastern Europe[2/]	1 163	808	354	1 175	704	471
Asia[3/]	5 369	7 682	-2 313	5 511	6 281	- 769
Japan	2 205	3 277	-1 072	2 193	2 576	- 383
China	905	1 034	- 129	676	865	- 189
Korea, Republic of	467	988	- 521	628	1 019	- 392
Others	1 792	2 383	- 590	2 015	1 821	195
USA[4/]	9 872	13 695	-3 824	10 849	11 872	-1 024
Opec	2 752	3 151	- 399	2 374	3 764	-1 391
Others	3 711	1 458	2 254	3 507	1 199	2 308

Source: MDIC/Secex

1/ Venezuela included in Opec.

2/ Albania , Bulgaria, Hungary, Poland, Slovak Republic, Czech Republic, Romania and countries of the former Soviet Union.

3/ Excludes Middle East and Indonesia included in Opec.

4/ Includes Puerto Rico.

With regard to the other Laia countries, one should cite the 6.6% increase in exports to Mexico, which reached a level of US$ 1.1 billion, while imports fell by 37.1%, raising the surplus in trade operations with that country by US$ 431 million. Trade with Chile dropped by approximately 12.4%, reflecting a reduction of the surplus by US$ 28 million. In the case of Venezuela, a major petroleum exporter nation, foreign sales declined by 24% and imports expanded by 28.9%, adding US$ 388 million to the deficit in overall trade flows with that nation.

Trade operations with the EU in 1999 resulted in a reduction of US$ 854 million in the deficit and a cutback in overall trade flows, since exports declined by 6.9% to a level of US$ 13.7 billion, and imports fell by 11.1%, with a total of US$ 15 billion. Sales of basic products dropped by 9.7%, particularly due to reductions in exports of soybeans and iron ore. In the case of semimanufactured goods, the decrease closed at 12.7% and was concentrated under such inputs as aluminum and semimanufactured goods in iron and steel. Manufactured products turned in a better performance, with a drop of 1.6%. Here, one should highlight the positive growth registered under sales of aircraft (134.3%) and vehicle engines (22.1%).

Exports to the United Kingdom increased by 7.3% and closed at US$ 1.4 billion, while those shipped to the Netherlands, a major importer of Brazilian goods within the European bloc, declined by 5.5% in 1999 and totaled US$ 2.6 billion.

Foreign sales to Germany declined by 15.4% in relation to 1998, closing with a total of US$ 2.5 billion. Among the major products shipped to the German market, the most important were such basic goods as coffee beans, with exports of US$ 446 million, for growth of 20.4%, iron ore, with sales of US$ 353 million, a reduction of 38.1%, unprocessed soybeans, with US$ 155 million, a drop of 39.7%, and tobacco in leaf, with a total of US$ 144 million, reflecting a decrease of 4.5%. Here, one should highlight growth of 41.3% under foreign sales of cellulose, with a total of US$ 68 million, aircraft, with US$ 55 million, as compared to just US$ 138 thousand in 1998.

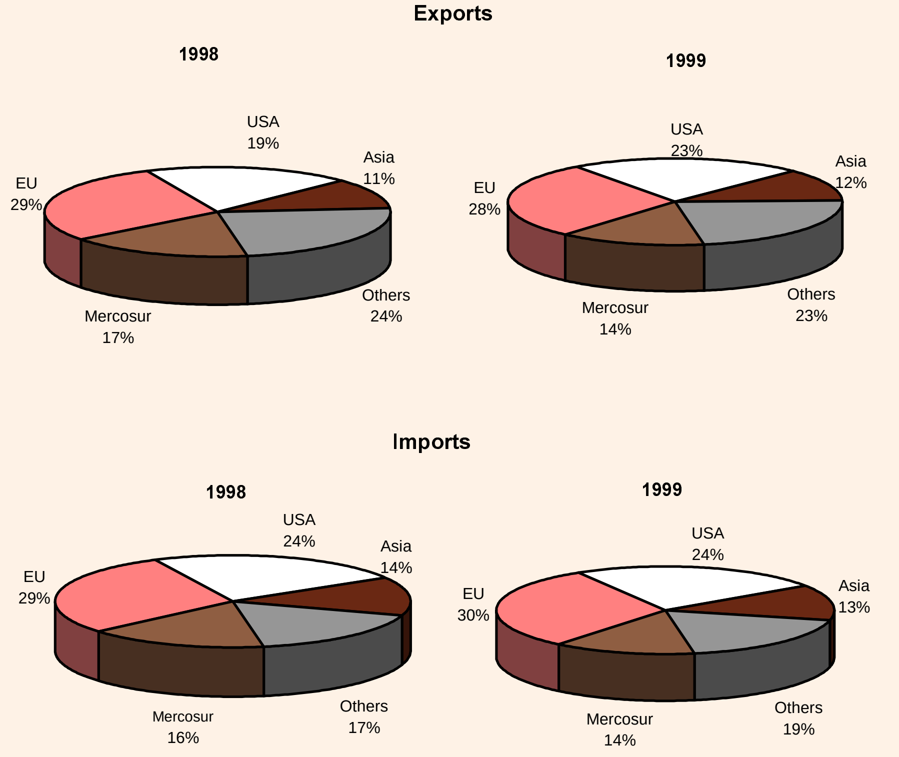
Exports to Italy totaled US$ 1.8 billion, for a decline of 4.4% in comparison to 1998, while those to France came to US$ 1.2 billion, or 2.4% less than in the previous year.

With regard to imports from the European Union, the total from Italy came to US$ 2.6 billion, a drop of 19.7%, those from the United Kingdom added up to US$ 1.2 billion, reflecting a reduction of 17.9% and purchases from the Netherlands reached US$ 594 million, a cutback of 14.7%. Imports from Germany were 10% lower than in the previous year and totaled US$ 4.7 billion. This figure was equivalent to 31.5% of total imports from the European bloc. Among the major products imported by Brazil in 1999, the most important were concentrated in the sector of transportation, including auto parts, with a total of US$ 350 million, or 47% less than in 1998; followed by passenger cars, with a total of US$ 193 million, a reduction of 37.7%, and piston engines, with US$ 136 million, reflecting growth of 2.4% over the 1998 position. Aside from these items, one should also note foreign purchases of capital goods, such as printing machines and apparatuses, totaling US$ 135 million, a reduction of 1.4%, and measuring and verification instruments, with a total of US$ 134 million, mirroring a cutback of 12%.

In comparison to other partners, trade flows with the United States turned in the best performance, with growth of 9.9% in exports, which came to US$ 10.8 billion, and a decline of 13.3% under imports, with a total of US$ 11.9 billion, reducing the deficit by US$ 2.8 billion in comparison to 1998.

Graph 5.10

Brazilian trade by area - FOB



Source: MDIC/Secex

Among the major products exported to the United States in 1999, particular mention should be made of aircraft, with a total of US$ 1.2 billion and growth of 39.2%, iron and steel semimanufactured goods, with US$ 514 million, and growth of 28.8%, coffee beans, with US$ 469 million, with expansion of 27.5%, auto parts, with a total of US$ 494 million, reflecting growth of 20.3%, and cellulose with sales of US$ 327 million, an increase of 17.5%. The most significant reductions occurred under exports of footwear (4.3%), with a total of US$ 879 million, and vehicle engines (9.5%), with a total of US$ 373 million.

With regard to imports from the United States, from the point of view of growth, the most important involved aircraft reactors and engines, with growth of 20.6% to a total of US$ 519 million, and electronic circuits, with growth of 55% and total purchases of US$ 490 million, followed by inputs related to aircraft production and data processing machines, both of which were among the major Brazilian export products in the year. Other import categories that expanded sharply involved medicines, electric motors, generators and transformers and telephone equipment. In the opposite sense, imports of the following items declined: transmission/reception equipment (6.1%), data processing equipment (15%) and measurement and verification devices (20.3%). These items registered respective import levels of US$ 706 million, US$ 487 million and US$ 310 million.

Significant improvement was achieved in trade with the countries of Asia, as the deficit diminished by US$ 1.5 billion as a result of 2.6% growth in foreign sales, which closed at a level of US$ 5.5 billion. At the same time, imports declined by 18.2% and closed at US$ 6.3 billion. Among the major products exported to the region in 1999, sales of unrefined aluminum closed with growth of 63% and a total of US$ 435 million, while sales of cellulose totaled US$ 357 million for growth of 22.1%, while chicken meat came to US$ 266 million and expansion of 29.5% and refined sugar sales added up to US$ 161 million, for growth of 29%.

Exports to Japan, Brazil's major trading partner in the region, totaled US$ 2.2 billion, while imports closed at US$ 2.6 billion, resulting in a reduction of US$ 689 million in the bilateral trade deficit.

Among the major products exported to Japan in 1999, the most important were unrefined aluminum, with US$ 357 million and growth of 33.9%, cellulose with US$ 157 million and expansion of 10.4% and chicken meat with US$ 157 million and growth of 25.2%. The largest decreases occurred under iron ore (15.8%), closing with a total of US$ 424 million, coffee beans (19.2%) and sales of US$ 183 million, unrefined soybeans (10%) with a total of US$ 64 million and tobacco in leaf (12.7%), totaling US$ 61 million.

Imports from Japan were concentrated in transmission/ reception equipment and components, with a total of US$ 224 million and growth of 36% over 1998, integrated circuits and downsized electronic equipment, with US$ 140 million, for a decline of 12.2%, parts and spares for automotive vehicles and tractors with US$ 129 million, for growth of 15.1%, and passenger cars, with a total of US$ 123 million, for a reduction of 44%.

Trade with China in 1999 registered a reduction of 25.3% under exports, which totaled US$ 676 million, and 16.3% under imports, with a total of US$ 865 million, for growth of US$ 60 million in the value of the trade deficit with that country.

Exports to South Korea expanded in response to the recovery of the Korean economy and closed with growth of 34.4% and a total of US$ 628 million, while imports expanded by 3.1% to US$ 1 billion. The result of these operations was a drop of US$ 130 million in the trade deficit with that country. Iron ore exports totaled US$ 126 million, reflecting a decline of 9.5%, while iron and steel semimanufactured goods came to US$ 98 million, a reduction of 24.8%, foreign sales of soy meal ended at US$ 72 million, for growth of 201% and exports of cellulose climbed to US$ 62,3 million, a rise of 44.7%. In the import column, sales of electronic products, such as transmission/reception equipment, came to US$ 269 million, while sales of integrated circuits closed at US$ 71 million. The latter two figures represented accentuated growth of 112% and 84%, respectively. The largest declines occurred under products related to the transportation sector, including tires (18.7%), vehicles for more than ten passengers (62.4%) and passenger cars (43.4%).

Growth in exports to the central eastern European countries increased by 1%, a figure that – while not particularly significant in itself – should be seen in light of the economic crisis and consequent difficulties that had hit that region of the world. Exports totaled US$ 1.2 billion and the major products shipped to that region included raw sugar, tobacco in leaf and aircraft. Imports originating in that region dropped by 12.9% and totaled US$ 704 million. The largest reductions were registered under fertilizers and cotton. The surplus with the region increased by US$ 117 million.

Services

Imports of services not related to production factors responded immediately to the cost increase generated by devaluation of the real. This was particularly true in the sectors of transportation and international travel.

Net outlays on overseas travel dropped sharply, stressing the gains in the competitiveness of internal tourism when compared to foreign tourism. The exchange devaluation produced a foreign travel cost increase in reals. The result was a sharp drop in spending when compared to 1998, particularly in March and April, the months immediately following devaluation. In the following months, spending stabilized in the range of US$ 270 million, approximately half of the previous year's level. Despite a cost reduction on tourism to Brazil, spending by foreign visitors to the country remained at approximately US$ 1.6 billion, the same level as in 1998. Measurements in reals, however, point to an increase in the revenues of outgoing tourism.

Net spending on transportation registered a reduction of 14% as a result of a cutback in outlays on international travel by Brazilians, as evinced by a 30.6% reduction in acquisitions of airline tickets and, principally, a drop in imports of goods which, in its turn, resulted in a 14.8% drop in payments of freight. Revenues earned on freights and travel tickets also declined as a result of lesser external revenues on passenger transportation and reductions in foreign sales of merchandise. This result partially offset the effect of the reduction in spending.

Net outlays on diverse services not related to production factors dropped to practically a fifth of the 1998 level. Among the highlights of this performance, one should mention spending on communications services and courses and congresses and, furthermore, earnings on competitions and expositions. In contrast to these results, revenues on communications services declined.

Table 5.10 - Services

US$ million

Itemization	1998			1999		
	Revenue	Expenditure	Balance	Revenue	Expenditure	Balance
Total	13 220	42 021	-28 801	12 020	37 227	-25 207
International travel	1 586	5 732	-4 146	1 623	3 059	-1 437
Tourism	1 550	5 491	-3 941	1 588	2 852	-1 263
Credit cards	871	3 568	-2 697	879	1 888	-1 009
Other tourism services	679	1 923	-1 244	709	964	- 255
Others	35	240	- 205	35	208	- 173
Transportation	1 863	5 124	-3 261	1 685	4 489	-2 804
Freight	473	2 138	-1 665	444	1 822	-1 379
Other	1 390	2 986	-1 596	1 242	2 667	-1 425
Insurance	390	309	81	165	292	- 127
Capital income	4 382	23 635	-19 253	3 708	22 930	-19 222
Interest	3 895	15 843	-11 948	2 230	17 394	-15 164
Profits and dividends	488	7 669	-7 181	1 478	5 536	-4 058
Reinvested earnings	...	124	- 124	...	...	...
Governmental (n.i.e.)	548	933	- 385	308	802	- 494
Sundry	4 451	6 288	-1 837	4 530	5 654	-1 124

Differently from services not related to production factors, services related to income did not react in a uniform manner to the effects of the exchange policy alteration. On the one hand, net remittances of profits and dividends fell sharply as a result of lesser investments in stock exchanges. Profits generated in the Brazilian economy in 1999 were not sufficient to justify growth in remittances, since the level of activities registered only very slight expansion. Aside from this, profit remittances generated in national currency and effected in foreign currency were impacted by the exchange devaluation.

On the other hand, net interest payments came to US$ 15.2 billion and were 26.9% higher than in the previous year. The underlying reason for this performance was an increase in expenditures as a result of increasingly larger average foreign debt positions from 1998 to 1999, as well as of a reduction in revenues on investments of international reserves.

Payments of interest on Brazilian securities totaled US$ 7.4 billion or 42.4% of the total. Payments on bonds were 6.7% smaller and closed at US$ 3.3 billion, while those on operations involving notes, the stock of which increased sharply in 1998, expanded by 33.2% and totaled US$ 3.8 billion. Outlays on interest on long-term import financing operations increased by 18.7% to US$ 2.7 billion, as a result of the stock accumulated in 1998. At the same time, expenditures on interest on anticipated payments of exports declined by 9.5% to a level of US$ 1.1 billion. Among the loans managed by Banco Central do Brasil, analysis shows payment of US$ 1.2 billion on normalization loans, US$ 603 million to the BIS, US$ 463 million to the IMF, US$ 56 million to the BoJ, US$ 40 million to the IBRD and US$ 29 million to the IDB.

Net remittances of profits and dividends declined by 43.5%, as inflows increased and remittances abroad dropped. The reduction in the stocks of stock market investments and direct foreign investments, when measured in foreign currency, resulted in a 27.8% cutback in remittances abroad. Payments of dividends and stock and ADR investment bonuses dropped by almost half and closed at US$ 1.3 billion, while capital gains totaled US$ 16 million, as against US$ 505 million in 1998. Remittances of profits abroad dropped by 16.7% and totaled US$ 4.2 billion. Profits from subsidiaries and branches and interest on direct investments which, when taken together, accounted for almost the totality of profit remittances, came to respective levels of US$ 2.6 billion and US$ 1.3 billion, for respective declines of 19.3% and 17.4%. Revenues on profits and dividends tripled in relation to 1998, with high levels of inflows in June (US$ 238 million) and October (US$ 648 million) consisting of profits of Brazilian institutions operating abroad.

Table 5.11 - Interest payments

US$ million

Itemization	1998			1999		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	7 205	8 638	15 843	8 759	8 635	17 394
Bonds	1 789	1 699	3 488	1 797	1 458	3 255
Notes	1 143	1 695	2 838	1 973	1 807	3 781
Resolution no. 63	278	345	622	448	308	756
Loans for onlending to agribusiness sector	138	334	472	127	89	215
Long-term import financing	911	1 323	2 235	1 270	1 381	2 652
Anticipated payments of exports	553	689	1 242	566	558	1 124
Paris Club	413	274	686	296	202	499
Bacen managed loans	6	11	17	365	775	1 140
Other	1 974	2 269	4 243	1 916	2 057	3 973

1/ Includes interest payments of exceptional financing loans.

Net outlays on diverse services related to production factors declined by 32.2% due to increased revenues and spending reductions. Revenue growth was concentrated in profits on commercial transactions or, in other words, gains on commercial activities involving merchandise abroad, rising from US$ 125 million to US$ 434 million. The highest revenue levels were registered under administrative services (US$ 1.3 billion) and specialized technical services (US$ 1.1 billion). Spending reductions occurred under various headings, but were most significant in the cases of contractual commissions (US$ 178 million), patents (US$ 121 million) and technology supplies (US$ 117 million). Also in the expenditure column, one should note the US$ 236 million increase in acquisitions of computer programs.

Table 5.12 - Remittances of profits and dividends

US$ million

Itemization	1998			1999		
	1st half	2nd half	Year	1st half	2nd half	Year
Total	3 070	4 598	7 669	2 705	2 832	5 536
Dividends and bonuses	1 280	1 342	2 623	548	786	1 333
Stocks	257	445	702	188	319	508
Appendices I to V (Res. no. 1,289)	953	432	1 385	335	453	787
Other	70	465	536	25	14	38
Profits	1 790	3 256	5 046	2 157	2 046	4 203

Unrequited transfers

Net inflows of unrequited transfers totaled US$ 2 billion or 14.7% more than in the previous year, as a result of 5.2% growth in foreign transfers to the country and a reduction of 33.2% in transfers abroad effected by Brazilians. Inflows designed to constitute available foreign currency reserves added up to US$ 199 million, for growth of 26%, while those intended for the support of residents came to US$ 991 million, for an increase of 23.2%.

Capital movement

The alteration of exchange policy and the decline in the pace of economic activity had little impact on the trajectory of long-term risk investments in Brazil. Net direct foreign investments, which have expanded steadily since the advent of the Real Plan, registered their highest level in history (US$ 30 billion). Investments in privatizations and public service concessions added up to US$ 8.8 billion. Among these operations, the most important was a US$ 6.3 billion inflow as part of the Telebrás privatization, which occurred in 1998. It is important to stress that, though quite significant, these funds represented only a fourth of total inflows, demonstrating that privatization inflows are just one important direct investment area. Conversions of foreign loans and financing

Table 5.13 - Sundry services

US$ million

Itemization	1998			1999		
	Revenues	Outlays	Balance	Revenues	Outlays	Balance
1 - Related to production factors	3 957	5 536	-1 579	4 127	5 197	-1 071
Equipment rental	14	656	- 642	7	578	- 572
Rental of motion pictures	0	59	- 59	0	87	- 87
Rental of tapes and records	0	9	- 9	0	19	- 19
Rental of real-estate	11	6	5	6	4	2
Contractual commissions	437	488	- 51	347	310	37
Brokerage	0	7	- 7	1	4	- 2
Administrative services	1 334	448	886	1 314	422	892
Copyright	16	239	- 223	31	194	- 163
Assignment rights of professional athletes	82	28	54	94	33	61
Fees	59	20	39	52	17	34
Gains/losses in mercantile transactions	125	63	62	434	77	357
Transactions in commodity exchange abroad	125	99	26	106	113	- 7
Transactions in commodity exchange in Brazil				0	1	- 1
Wages	273	178	95	307	167	140
Participation in exhibits	15	11	4	15	11	4
Hedging operations	160	235	- 74	175	177	- 2
Use of brands or advertisement	5	13	- 8	5	37	- 32
Use of copyrights	1	218	- 217	0	97	- 97
Supply of industrial technology	53	597	- 544	15	480	- 465
Supply of technical industrial cooperation	7	387	- 380	5	426	- 421
Supply of other services	1	18	- 17	1	21	- 20
Franchises	0	3	- 3	0	4	- 4
Implementation/installation of projects	70	21	49	27	16	11
Brands and copyrights - reg./dep./maint.	68	8	59	76	11	64
Specialized technical services	1 094	1 006	89	1 108	932	176
Software (copy)	7	721	- 714	2	957	- 954
Guarantee to export credit	0	0	0	0	4	- 4
2- Non-related to production factors	494	752	- 258	403	457	- 54
Subscriptions to newspapers, magazines etc.	2	42	- 40	1	42	- 40
Acquisition of medicaments	0	0	0	0	0	0
Communications	154	98	56	30	42	- 11
Courses and congresses	19	173	- 153	21	105	- 83
Banking services	99	187	- 88	112	137	- 25
Advertising	116	66	50	126	61	65
Remunerations on competitions/exhibits	15	55	- 40	24	21	2
Information services	3	38	- 36	11	25	- 14
International orders	1	9	- 9	0	11	- 11
Airport services	80	82	- 2	50	12	38
Other	5	1	4	27	1	26
Total	4 451	6 288	-1 837	4 530	5 654	-1 124

into direct investments came to US$ 4.3 billion or more than double the 1998 total, while commodity investments came to US$ 183 million. Returns from abroad dwindled by 46.3% and closed at a total of US$ 1.4 billion. With this result, direct investments financed the current account deficit, with considerable leeway.

An analysis by country of origin shows that the largest share of 1999 direct investments came from the United States, though more than half of the funds channeled to Brazil originated in European countries, particularly Spain, the Netherlands, Portugal and France.

Foreign portfolio investments closed with a net inflow of US$ 1.5 billion in 1999, Investments in stocks and American Depositary Receipts (ADR) through appendices I to V of Resolution no. 1,289, came to US$ 2.8 billion and were partially offset by net redemptions of investments in foreign investment funds. Reductions in investment levels in stocks were very strong in December 1998 and January 1999. However, this process diminished in the wake of the devaluation since one of the impacts of the exchange shift

Table 5.14 - Direct investments

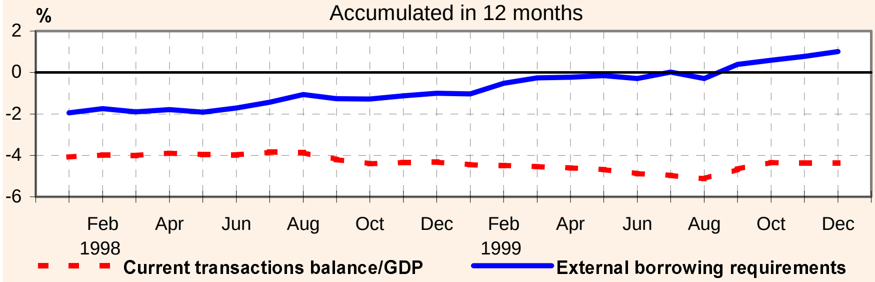
US$ million

Itemization	1998			1999		
	1st half	2nd half	Year	1st half	2nd half	Year
Foreign	8 303	17 569	25 871	12 934	17 063	29 996
Inflows	9 379	19 101	28 480	13 870	17 528	31 397
Foreign currency	8 828	17 518	26 346	12 263	14 653	26 916
Privatization	1 997	4 123	6 120	5 018	3 768	8 786
Other	6 831	13 395	20 226	7 245	10 885	18 130
Goods	14	64	78	106	77	183
Conversions	479	1 453	1 932	1 501	2 797	4 298
Reinvestments	58	66	124	...	...	...
Outflows	1 076	1 533	2 609	936	465	1 401
Brazilian	- 467	-2 254	-2 721	- 458	- 683	-1 141
Inflows	77	76	153	200	117	318
Outflows	544	2 330	2 874	658	801	1 459

Graph 5.11

Balance of current transactions and external borrowing requirements

Accumulated in 12 months



External borrowing requirements = Current transactions balance + net foreign direct investment was to reduce the cost of new acquisitions. With gradual improvement in economic expectations as of March, the process of declining investments was reversed, through the result for the year as a whole was at best modest. Purchases of ADR generated inflows of US$ 1.1 billion, approximately a third of the 1998 total. Fund investments registered net returns abroad of US$ 1.3 billion, of which US$ 1.2 billion were concentrated in fixed income funds and US$ 115 million were centered on privatization funds.

Brazilian investments abroad were 59.7% below the 1998 level, due to reductions in direct investments and a reversal in the net flow of portfolio investments. To some extent, the

Table 5.15 - Foreign direct investments in Brazil
Distribution by country of origin/destination

US$ million

Country	Inflows		Outflows	
	1998	1999	1998	1999
United States	6 163	9 386	369	490
United Kingdom	538	424	8	4
Cayman Islands	1 956	2 271	1 395	41
Bahamas	188	194	54	14
Japan	373	351	61	4
Spain	5 285	5 839	181	2
Netherlands	3 464	3 273	1	46
Germany	887	702	149	20
France	1 921	2 169	49	1
Portugal	2 279	2 470	34	5
Belgium	979	108	1	495
Luxembourg	143	347	35	2
Switzerland	337	755	5	13
Uruguay	194	170	6	8
Italy	730	496	13	1
Sweden	270	340	0	0
Canada	367	483	0	6
Argentina	200	169	1	14
Virgin Islands (British)	292	357	15	23
Panama	175	127	13	9
Chile	292	88	0	0
Bermuda	133	303	32	47
South Korea	61	55	1	0
Gibraltar	219	1	0	0
Barbados	56	125	0	0
Trinidad and Tobago	164	0	0	0
Other[1/]	814	394	186	156
Total	28 480	31 397	2 609	1 401

1/ Includes transactions in reals,reinvestments, goods and loans conversion.

latter were offset by growth in investments in Brazilian securities. Direct investments (US$ 1.1 billion) dropped by 58.1%, with declines of 54% under net investments in subsidiaries and 75.1% in investment in stock participation abroad. These two headings closed with respective totals of US$ 1 billion and US$ 129 million. Net portfolio investments, a heading under which US$ 677 million were remitted in 1998, came to US$ 227 million, due basically to repatriation of US$ 731 million invested by Fiex, against net outflows of US$ 507 million in the previous year. Overall net investments in Brazilian securities totaled US$ 708 million and corresponded to acquisitions of papers issued on the foreign secondary market by residents in Brazil.

Table 5.16 - Portfolio investments

US$ million

Itemization	1998			1999		
	1st half	2nd half	Year	1st half	2nd half	Year
Foreign	8 251	-10 103	-1 851	1 163	359	1 522
Inflows	20 681	11 149	31 830	11 465	6 850	18 315
Outflows	12 430	21 252	33 682	10 303	6 491	16 793
Appendices I to IV	1 957	-3 603	-1 645	1 618	118	1 736
Inflows	12 346	8 551	20 897	7 645	4 875	12 521
Outflows	10 389	12 154	22 543	6 028	4 757	10 785
Appendix V	2 602	1 001	3 603	613	477	1 090
Inflows	3 566	2 041	5 607	1 551	1 406	2 957
Outflows	964	1 040	2 004	938	930	1 867
Fixed income funds	3 513	-6 497	-2 984	- 983	- 200	-1 183
Inflows	3 734	254	3 988	2 224	516	2 740
Outflows	221	6 751	6 972	3 207	716	3 923
Privatization funds	177	- 923	- 746	- 80	- 35	- 115
Inflows	1 027	295	1 322	45	51	96
Outflows	850	1 218	2 068	125	86	211
Real estate investment funds	2	- 81	- 79	- 5	- 1	- 6
Inflows	8	8	16	0	1	1
Outflows	6	89	95	5	2	7
Brazilian	- 77	- 600	- 677	342	- 569	- 227
Inflows	222	1 798	2 020	3 393	371	3 765
Outflows	299	2 398	2 697	3 051	941	3 991
Foreign Investment Funds (Fiex)	79	- 586	- 507	544	187	731
Inflows	214	1 712	1 926	3 039	352	3 391
Outflows	135	2 298	2 432	2 496	165	2 660
Other	- 156	- 15	- 171	- 201	- 757	- 958
Inflows	9	86	94	354	19	373
Outflows	165	100	265	555	776	1 331

Foreign medium and long-term financing registered net amortizations of US$ 4.9 billion, as compared to net inflows of US$ 8.1 billion in 1998, with a reduction in disbursements and growth in payments. The reduction in foreign credits to the country that followed immediately upon devaluation resulted in alterations in the norms governing the time periods allotted for payment of imports, so as to make it possible for importers to access

Table 5.17 - Portfolio investments in Brazil
Distribution by country of origin/destination

US$ million

Country	Inflows		Outflows	
	1998	1999	1998	1999
United States	21 477	11 027	20 802	9 871
United Kingdom	1 532	1 102	2 139	1 156
Cayman Islands	2 355	1 121	2 891	762
Bahamas	1 569	2 913	4 033	3 182
Japan	3	1	72	1
Spain	51	2	0	1
Netherlands	27	9	8	15
Germany	166	38	151	19
France	116	162	118	83
Portugal	0	18	0	0
Belgium	0	0	0	0
Luxembourg	610	366	765	304
Switzerland	1 074	252	920	326
Uruguay	38	31	26	58
Italy	0	0	0	0
Sweden	0	5	1	4
Canada	98	15	129	22
Argentina	79	52	62	32
Virgin Islands (British)	146	235	359	281
Panama	4	4	16	21
Chile	2	0	4	0
Bermuda	49	50	470	39
South Korea	0	0	0	0
Gibraltar	0	0	0	0
Barbados	0	0	0	0
Trinidad and Tobago	0	0	0	0
Other[1/]	2 435	912	718	616
Total	31 830	18 315	33 682	16 793

1/ Includes transactions in reals.

shorter-term foreign trade credits. Consequently, long-term suppliers' and buyers' credits, which came to US$ 10.5 billion, dropped by 46.6%. Disbursements by bilateral agencies increased by 27.1% to US$ 1.5 billion, of which US$ 833 million were granted by Eximbank-Japan. This amount was significantly greater than in the previous year. Credits from international organizations totaled US$ 4.6 billion and were US$ 417 million greater than in the previous year. Disbursements from IDB and IBRD, including CFI funding, totaled US$ 2.9 billion and US$ 1.7 billion, respectively, of which US$ 2 billion and US$ 1 billion were part of the program of financial assistance to Brazil.

Amortizations of medium and long-term financing came to US$ 21.4 billion, for growth of US$ 4.7 billion due mostly to growth of US$ 4 billion in payments to suppliers and buyers. Payments to international organizations increased by US$ 779 million and contributed significantly to the increase in total amortizations. Payments to government agencies registered a reduction of US$ 108 million and came to a total of US$ 2 billion.

Medium and long-term foreign loan flows were strongly impacted by the effects of the devaluation on the financing of the balance of payments. The drop in foreign credits to the country affected placements of Brazilian securities abroad, principally notes, at the same time in which there was a sharp increase in loan amortizations under this heading, as a result of the maturities of loans contracted in 1998 with average terms of one year. The result was US$ 10.1 billion in net outflows in the first quarter. In the second quarter of the year, however, the upturn in foreign credits and the reduction in amortizations generated a reversal to inflows of US$ 5.6 billion, including refinancing. In the second half of the year, the positive flow of resources was consolidated, particularly in terms of public placements of bonds, including operations involving foreign debt exchanges that resulted in the lengthening of terms. Net loans totaled US$ 4.3 billion in that period.

Table 5.18 - Official financing and suppliers'/buyers' credits

Disbursements to Brazil

US$ million

Itemization	1998			1999		
	Currency	Goods	Total	Currency	Goods 1/	Total
Total	5 043	19 865	24 908	5 869	10 631	16 500
Multilateral organizations	4 136	34	4 170	4 585	2	4 587
IDB	2 024	26	2 050	2 896	2	2 898
IBRD	1 470	2	1 471	1 533	0	1 533
IFC	643	7	649	156	0	156
Government agencies	906	237	1 144	1 284	171	1 454
Eximbank - Japan	228	135	363	825	8	833
KFW	200	14	214	154	23	177
Other	478	88	566	305	140	445
Suppliers'/buyers' credits	-	19 594	19 594	-	10 458	10 458

1/ Financing from multilateral organizations and government agencies are included under suppliers'/buyers' credits.

Long-term bank loans to the country registered net amortizations of US$ 2.2 billion. This was practically the opposite of the 1998 result when the year closed with net inflows of US$ 3.2 billion. Amortizations were concentrated in the first quarter of the year and totaled US$ 2.9 billion, an amount greater than total amortizations in the previous year. Of this total, US$ 2.1 billion referred to loans to banks in the country for onlending purposes to businesses, according to the terms of Resolution no. 63, and US$ 725 million referred to direct loans to companies in the country under the terms of Firce Communiqué no. 10. In the year, inflows based on these norms registered net outflows of US$ 1.7 billion and US$ 388 million, respectively.

Table 5.19 - Medium & long-term loans and financing

US$ million

Itemization	1998			1999		
	1st half	2nd half	Year	1st half	2nd half	Year
Foreign	27 786	8 041	35 826	-6 481	1 395	-5 086
Financing	6 999	1 150	8 149	-2 006	-2 923	-4 928
Disbursements	12 414	12 494	24 908	8 506	7 993	16 500
Multilateral organizations	1 998	2 172	4 170	2 074	2 513	4 587
Government agencies	514	630	1 144	457	997	1 454
Suppliers/buyers' credits	9 901	9 692	19 594	5 975	4 483	10 458
Amortization	5 415	11 344	16 759	10 512	10 916	21 428
Multilateral organizations	755	704	1 459	1 171	1 067	2 238
Government agencies	1 190	870	2 060	911	1 040	1 952
Suppliers/buyers' credits	3 470	9 770	13 240	8 430	8 809	17 239
Loans	20 787	6 891	27 677	-4 475	4 318	- 157
Disbursements	25 057	16 539	41 596	13 176	14 788	27 963
New inflows	25 057	16 539	41 596	12 176	12 788	24 963
Bonds	2 698	0	2 698	2 000	2 719	4 719
Notes	13 109	10 563	23 672	5 312	5 772	11 084
Commercial paper	566	81	647	1 081	602	1 683
Banks	4 293	1 460	5 752	1 223	1 460	2 683
Intercompany	2 748	3 517	6 266	1 670	1 567	3 237
Securitization	248	73	321	266	130	396
Other	1 396	845	2 241	624	538	1 162
Refinancing	0	0	0	1 000	2 000	3 000
Amortization	4 271	9 648	13 919	17 650	10 470	28 121
Paid	4 271	9 648	13 919	16 457	7 467	23 924
Bonds	1 141	1 725	2 867	1 289	155	1 444
Notes	1 354	2 258	3 612	8 751	3 654	12 405
Commercial paper	152	291	443	478	146	624
Banks	625	1 976	2 601	3 255	1 631	4 886
Intercompany	192	683	875	850	989	1 838
Securitization	243	86	329	397	62	459
Other	564	2 628	3 192	1 438	830	2 268
Refinancing	0	0	0	1 193	3 003	4 196
Brazilian (net)	39	-2 793	-2 755	- 259	- 324	- 583
Total	27 824	5 247	33 072	-6 740	1 071	-5 669

Net intercompany loans between associated companies in the country and abroad totaled US$ 1.4 billion, approximately one fourth of the amount registered in 1998. Despite this decline, these credits registered net inflows in 1999 as a result of the close relationship that exists between these operations and direct foreign investments, which increased sharply during the year.

Once refinancing operations are excluded, net loans came to US$ 1 billion in the year.

Net short-term capital outflows registered a sharp drop to just US$ 9.9 billion, as compared to US$ 31.2 billion in 1998. This was a result of the reversal in the net flow of foreign credit lines and a reduction of 58.2% (US$ 14.4 billion) in remittances of resources through operations with institutions abroad. Payments of loans to the agroindustrial sector came to US$ 1.4 billion, for growth of US$ 279 million, while other short-term loans, which had registered net outflows of US$ 274 million in 1998, closed with US$ 1.5 billion, of which US$ 455 million referred to net inflows through note operations.

Total foreign debt

In December 1998, the total foreign debt was estimated at US$ 241.1 billion, about the same level as in 1998. In that period, the medium and long-term debt declined by 1.1% to US$ 212.8 billion, while the short-term debt increased by 6.9% to US$ 28.3 billion.

On the one hand, the December 1999 position indicated growth in nonfinancial public sector indebtedness, though the private sector is still responsible for the major share of indebtedness, with 58.4% of the total. Growth in the public foreign debt in 1999 – moving from US$ 95.5 billion to US$ 100.3 billion – was mostly due to inflows of resources originating in the program of financial assistance to Brazil. On the other hand, the private sector debt declined over the course of the year from US$ 146.2 billion to US$ 140.8 billion, due to reductions in the volume of financing to the trade sector and cutbacks in new loan inflows in the period as a result of deterioration in the cost conditions of these operations.

Medium and long-term import financing, which had totaled US$ 69.1 billion in December 1998, dropped by 8.7% in 1999 and closed at US$ 63.1 billion, reflecting the 14.7% cutback in imports. Financial loans fell by 2.1% dropping from US$ 91.4 billion to US$ 89.5 billion.

In its turn, growth in the short-term debt is explained by expansion in the liabilities of commercial banks resulting from the shortening of the terms of import financing operations. The credit lines available to Petrobrás for petroleum imports diminished by 1.1% in the period. The drop in the debt referring to loans for onlending to the agroindustrial sector was offset by growth in other short-term operations, such as funding through commercial papers and notes.

The major share of the Brazilian foreign debt consists of loans and financing contracted at fixed interest rates. The major indexing factor of the debt contracted at fixed interest is the six month Libor. Distribution of the debt by currency points to two categories that have increased in importance since 1998: Special Drawing Rights (SDR) and the Euro. The increase in indebtedness in SDR was a consequence of inflows under the terms of the program of financial assistance to the country, led by the International Monetary Fund.

The participation of the euro in the Brazilian foreign debt intensified in 1999 and should be credited to the growing importance of a new market for sovereign issues in the euro zone. The member countries of the Economic and Monetary Union (EMU) defined common economic policy parameters as of 1999, including: (i) adoption of the euro as the interest rate reference, with constant parities among the various countries; (ii) definition of limits for fiscal results, and (iii) centralization of monetary policy formulation and implementation by the European Central Bank, with representatives of the central banks of each country. This structure improves perceptions as regards the macroeconomic stability of the area and, in light of the magnitude of the market, provides these papers with greater liquidity. Consequently, issues in euro became more attractive than the

Table 5.20 - Gross foreign indebtedness

US$ million

Itemization	1995	1996	1997	1998	1999[5/]
A. Total debt (B+C)	159 256	179 935	199 998	241 644	241 056
B. Medium and long-term debt[1/]	128 732	142 148	163 283	215 215	212 795
IMF loans	142	68	32	4 795	8 810
Renegotiated debt bonds	51 451	51 239	41 930	40 419	35 330
Other bonds	2 452	3 637	7 457	9 321	15 941
Import financing	36 113	34 165	50 785	69 108	63 072
Multilateral [2/]	10 680	11 325	12 353	19 592	20 941
Bilateral [3/]	18 976	15 821	14 348	17 532	16 941
Other financing sources	6 457	7 019	24 084	31 984	25 190
Currency loans	38 347	52 836	62 898	91 415	89 505
Other loans	227	203	181	157	137
C. Short-term debt	30 524	37 787	36 715	26 429	28 261
Credit line for petroleum imports	3 067	4 985	5 695	3 355	3 318
Other credit lines of nonfin. state-owned companies	0	0	0	0	0
Commercial banks (liabilities)	26 235	30 611	26 501	17 911	19 267
Resolution no. 2,483 - Rural financing	-	1 944	4 003	1 399	23
Special operations[4 /]	287	70	516	3 764	5 653

1/ Data refer to capital registration in the Banco Central do Brasil. They are not compatible with the balance of payments figures, which represent inflows and outflows effectively occurred in the period.

2/ Includes resources withdrawn from BIS, in the framework of the financial assistance program. In 1988, stocks added up to US$ 4,150 million. In 1999, stocks added up to US$ 3,150 million.

3/ Includes resources withdrawn from BoJ, in the framework of the financial assistance program. In 1988, stocks came to US$ 390 million. In 1999, stocks closed at US$ 297 million.

4/ As from 1997, it includes Bridge Loans and Loans channeled to onlending to export companies. In 1999, short-term inflows of commercial papers, notes, bonds, direct loans and import financing supported by Banco Central's records are also included.

5/ Preliminary.

individual issues of the various member countries and became an important option to the United States dollar. As of 2002, issues will no longer be permitted in the currencies of the EMU but only in euro.

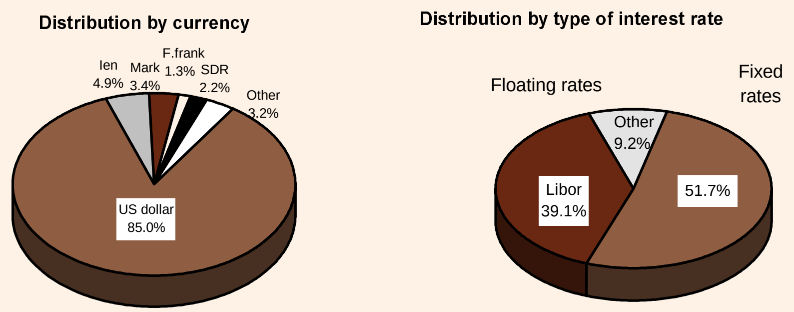
In December 1999, the major indebtedness indicators worsened in relation to the December 1998 position. The total debt/exports ratio moved from 4.7 to 5 and the net debt/exports ratio from 3.6 to 4. The percentages of total debt/GDP and net debt/GDP moved from 31.2% to 43.3% and from 23.5% to 34.1%, respectively. The reasons underlying this performance were a 6.5% drop in exports and a 39.4% drop in GDP measured in dollars, when compared to 1998. The drop in GDP was restricted to the dollar measurement and was a direct result of exchange devaluation.

The proportion of the Brazilian foreign debt service, defined as the sum of outlays on interest and amortizations, on export operations came to 130.7% in 1999, as against 96.7% in 1998. In comparison with GDP, the debt service moved from 6.4% to 11.3%. This deterioration was due to the increase in the volume of amortizations in the period from US$ 33.6 billion to US$ 45.4 billion, as well as to the volume involving interest payments, which rose from US$ 15.8 billion in 1998 to US$ 17.4 billion in 1999. Despite the exchange devaluation, the debt service/GDP ratio came to 11.3% in 1999 and was influenced by the increased volume of amortizations, concentrated in import financing operations and notes. The volume of these inflows was particularly high in the first quarter of 1998, particularly as a result of the cutbacks of the minimum term to one year, resulting in a concentration of maturities in 1999.

Graph 5.12

Registered foreign debt composition

December 1998



Registered public foreign debt

The registered public foreign debt is composed of the financial and nonfinancial public sector debts and by the private sector debt guarantied by the public sector. Aside from operations with terms of more than 360 days, this heading also includes the following short-term operations: loans for onlending to the agroindustrial sector (Resolution no. 2,483, dated 3.27.1996) and exporter companies (Resolution no. 2,312, dated 9.5.1996) and funding operations based on placements of bonds, commercial papers and notes (Resolution no. 2,859, dated 1.27.1999). The position for December 1999 was estimated at US$ 105.8 billion, an increase of 1.7% over the 1998 stock. Growth was due to federal government debt contracting operations, particularly new bonds of the Republic operations on the international market. The stock of these operations at the end of 1999 was US$ 1.5 billion above the preceding year's final figure.

Foreign funding

The volume of foreign resources contracted by the Federative Republic of Brazil in 1999 was significant and closed at US$ 7.7 billion. Though the alteration of the Brazilian

Graph 5.13

Indebtedness indicators

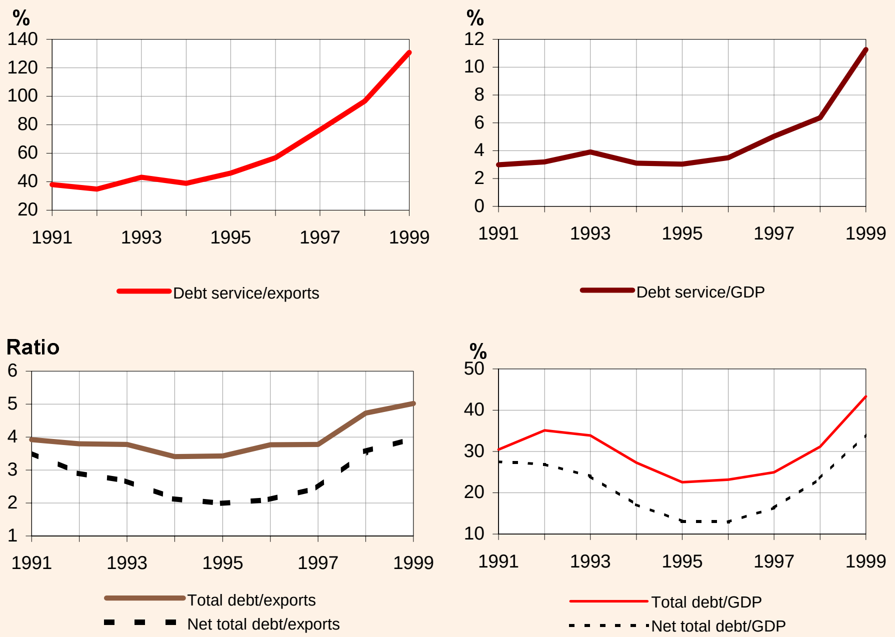


Table 5.21 - Indebtedness indicators

US$ million

Itemization	1995	1996	1997	1998	1999[2/]
Debt service	21 431	27 183	40 431	49 430	62 747
Amortization[1/]	11 032	14 419	26 021	33 587	45 353
Gross interest	10 399	12 764	14 410	15 843	17 394
Registered debt (A)	129 313	144 092	167 760	220 350	218 471
Nonregistered debt (B)	29 943	35 843	32 238	21 294	22 585
Total debt (C)=(A+B)	159 256	179 935	199 998	241 644	241 056
International reserves (D)	51 840	60 110	52 173	44 556	36 342
Brazilian credit abroad (E)	6 139	7 587	7 331	7 441	7 274
Commercial banks' assets (F)	8 930	11 675	9 639	7 340	7 481
Net debt (G)=(C-D-E-F)	92 348	100 563	130 856	182 307	189 959
Exports	46 506	47 747	52 990	51 140	48 011
GDP	705 449	775 475	801 662	775 501	556 512
Memorandum (in percentage)					
Debt service/exports	46.1	56.9	76.3	96.7	130.7
Debt service/GDP	3.0	3.5	5.0	6.4	11.3
Total debt/exports	342.4	376.9	377.4	472.5	502.1
Total debt/GDP	22.6	23.2	24.9	31.2	43.3
Net total debt/exports	198.6	210.6	246.9	356.5	395.7
Net total debt/GDP	13.1	13.0	16.3	23.5	34.1

1/ Refinanced amortization are not considered.

2/ Preliminary.

exchange system in the early part of the year aided in dampening the pace of new flows from the international financial market to Latin American nations, the basic soundness of the nation's macroeconomic underpinning soon reversed these expectations and generated a rapid upturn in flows to the private sector in the form of foreign financing. In the month of April, the first Global-04 sovereign issue took place and was followed later by six other issues during the course of the year, two of which were denominated in United States dollars and four in euro.

The two inflows in United States currency were operations involving exchanges of restructured debt papers – Bradies – resulting in a lengthening of the debt term, financial gains reflected in the nominal reduction of the external debt and releases of collateral guaranties and, finally, in greater liquidity on the secondary Brazilian foreign debt securities market. The 5 year Global-04 represented issues of US$ 2 billion in financing with new funding and US$ 1 billion paid in Eligible Interest (EI) and Interest Due Unpaid (IDU), the face value of which came to US$ 1.2 billion. The nominal debt reduction, consequently, came to US$ 193 million. Issue of Global-09 with a 10 year maturity came to US$ 2 billion and was fully financed by repurchases of original Brazilian foreign debt restructuring agreement papers. The face value of the papers exchanged - Capitalization Bond (C-Bond), Debt Conversion Bond (DCB), Discount Bond and Par Bond, including capitalization – came to US$ 3 billion, reflecting a US$ 1 billion reduction in the nominal debt. At the time of issue of the Discount Bond and Par Bond, Brazil provided guaranties

Table 5.22 - Public registered foreign debt

Breakdown of principal by debtor and by guarantor - US$ million

Itemization	1995	1996	1997	1998	1999e
Federal government (direct)	76 031	74 010	65 989	66 777	69 689
States and municipalities	2 333	2 796	3 512	4 886	5 055
Direct	229	347	364	746	...
Guaranteed by the federal government	2 104	2 449	3 148	4 140	...
Semi-autonomous entities, public and mixed companies	16 264	15 742	16 173	31 467	30 126
Direct	6 147	7 668	9 297	15 879	...
Guaranteed by the federal government	10 117	8 074	6 876	15 588	...
Private sector (garanteed by the public sector)	485	370	489	919	919
Total	95 113	92 918	86 163	104 049	105 789
Direct	82 407	82 025	75 650	83 402	...
Guaranteed by	12 706	10 893	10 513	20 647	...
Federal government	11 933	10 255	10 111	19 920	...
States and municipalities	2	1	1	5	...
Semi-autonomous entities, public and mixed companies	771	637	401	722	...

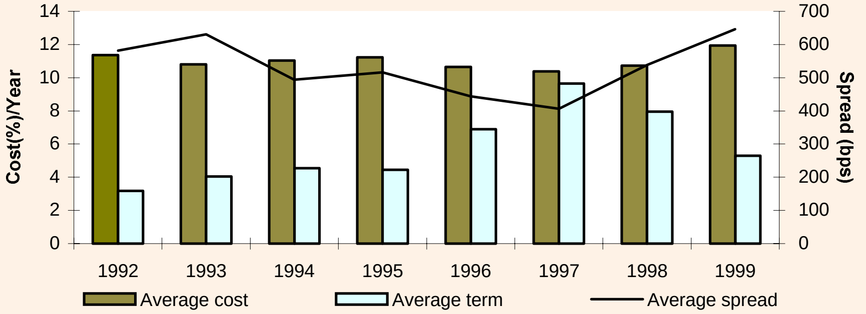
e - Estimated.

- American government papers custodied by BIS – for payment of principal, and short-term deposits for payment of interest. The release of the guaranties of principal made it possible to sell these papers, generating US$ 423 million. When one factors in the short-term deposits, the final result was incorporation of US$ 587 million into international reserves.

The four euro inflows, which accounted for a total of US$ 2.7 billion in new funding, had varied terms ranging from two to seven years. This was important to implementing the system of sequencing the maturities of issues denominated in Euro, thus building the cost reference curve for security issues by private agents. The basic characteristics of the public and private operations authorized by Banco Central do Brasil in 1999, showed the following average conditions, when weighted by their respective values: terms of 5.3 years, spread of 646 base points above American Treasury Bonds and a global cost of 11.9% per year, including commissions and other placement costs.

In December 1999, Bradies, Pre-Bradies and MYDFA, registered a debt balance of US$ 36.3 billion, while global bonds came to US$ 10.5 billion and Eurobonds totaled US$ 5.4 billion. This means that 21.7% of the total estimated foreign debt was represented by MYDFA and bonds for which the central government was liable. An analysis of the registered nonfinancial public sector medium and long-term debt indicates that these instruments are the item of greatest weight with 53.8%.

Graph 5.14
Inflow of foreign resources
Previous authorizations

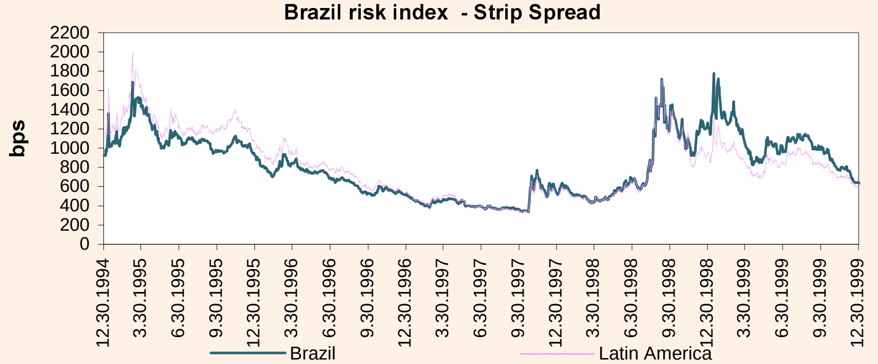


Brazilian foreign debt papers

The performance of the principal Brazilian foreign debt papers on the secondary market was positive throughout 1999, as the prices of all sovereign papers closed the year at levels sharply higher than at the end of 1998. This upward movement can be broken down into three stages. Up to April, the process of recovery in the prices of these papers brought them close to those in effect in November 1998. Following a few months of relative stability, prices swung upward once again in the month of August, initiating a process that was to continue through to the end of the year. The price recovery for Bradies and global bonds signaled that foreign investors were accepting lesser rates of return for carrying these papers. This improvement was due to lesser perception of risk and a reversal in previously unfavorable expectations. The uncertainties regarding the macroeconomic environment that had originated as a result of fiscal matters, external questions and difficulties involved in implementing the new system diminished significantly.

C-Bonds – the papers with the highest liquidity among those traded on emerging markets – closed the year with a return of 12.7%, as against profitability of 19.8% in January of the same year. A comparison between the end of 1998 and the end of 1999 shows C-Bond valuation of 25.6%. The differential between returns on Brazilian securities and those on United States public securities dropped as a result of increased acceptance of Brazilian papers. Obviously, this reflects improvement in the perception of risk attributed to Brazil by the international market. In this sense, a comparison between the return differential of a basket of Brazilian securities and a basket that includes the papers of other Latin American countries indicates that the degree of risk attributed to Brazil declined and closed the year at the median level for Latin America in general. Risk perception peaked in the wake of the exchange turbulence that occurred in Mexico, Southeast Asia, Russia and Brazil. In December 1999, the differentials returned to the level registered prior to the outbreak of the Russian crisis, though they continued higher than in the period prior to Asian difficulties.

Graph 5.15
Brazil risk index - Strip Spread



International financial assistance program – drawdowns and amortizations

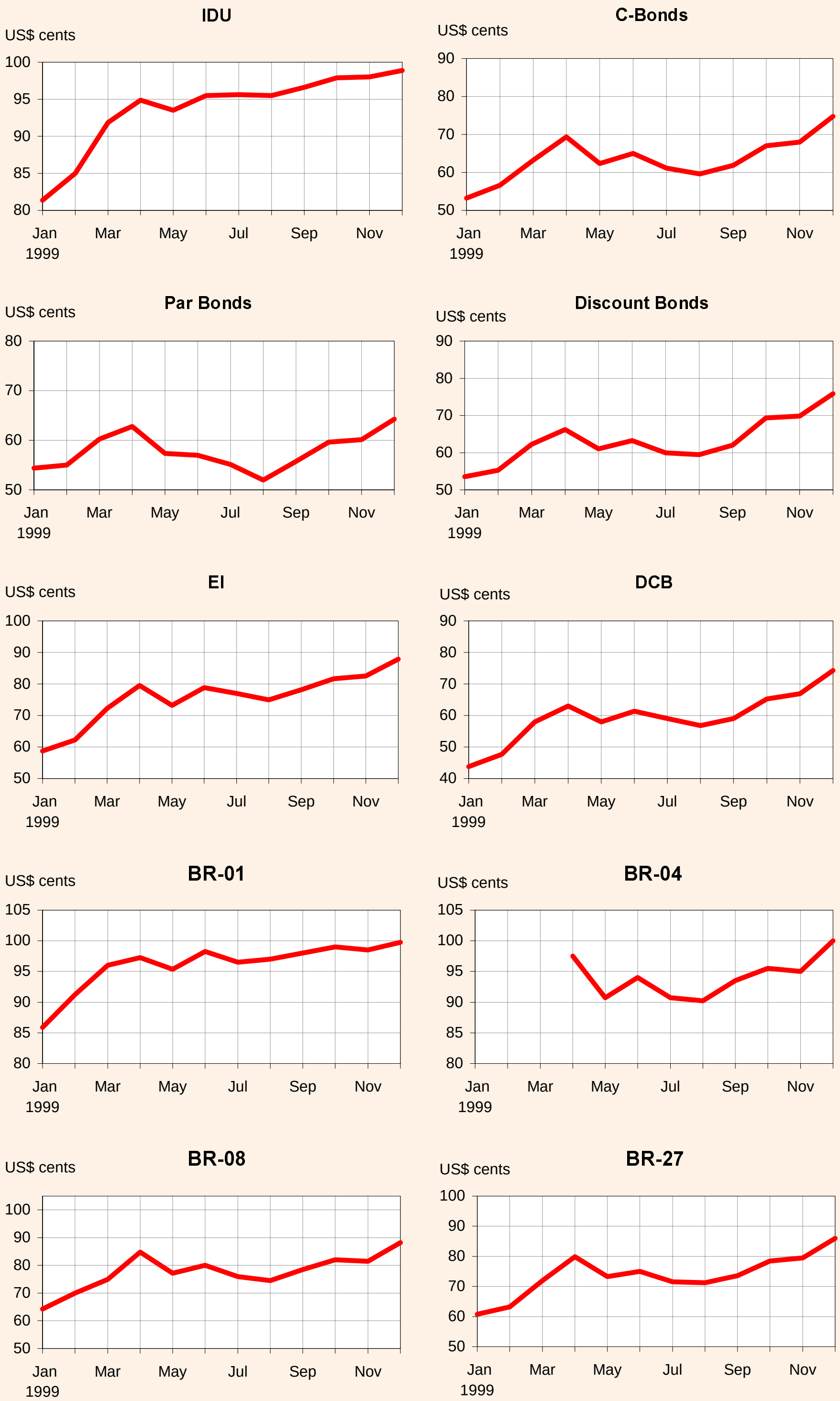
During the course of 1999, the Program of Financial Assistance generated inflows of US$ 6 billion from the IMF, of which US$ 4.9 consisted of Supplemental Reserve Facilities (SRF) and US$ 1.1 billion were classified as Credit Tranche, (US$ 4.5 billion from BIS and US$ 424 million from the Bank of Japan, for an overall value of US$ 10.9 billion.

Graph 5.16

Prices of Brazilian securities abroad

Secondary market - end of period

1999



Earnings on liabilities with BIS and BoJ are set at the half-year Libor plus 460 base points. Maturities occur every six months with the possibility of extensions for equivalent periods, provided the amount does not exceed the percentage utilized (debt balance over amount provided) of the resources provided by the IMF through the Supplementary Reserve Facility. Each extension adds an additional 50 base points to the earnings rate, up to a ceiling of 560 base points above the half-year Libor. Amortizations involve credits granted in December 1998, the date of the first tranche. Funding drawdowns with BIS and BoJ in 1998 were fully amortized. The drawdown in April 1999 was amortized at 30% of value, or US$ 1.5 billion, in six months. Consequently, the debt balance with these institutions came to US$ 3.4 billion.

Table 5.23 - Exceptional financing

US$ million

	1998[1/]	1999		
	Disbursements	Disbursements	Amortizations	Interest
IBRD[2/]	-	1 000	-	40
IBD[2/]	-	1 999	-	29
IMF	4 784	6 025	1 966	463
BIS	4 150	4 500	5 500	603
BoJ	390	424	518	56
Total	9 324	13 948	7 984	1 191

1/ No amortization or interest were paid in the year.

2/ Included in the balance of payments under the heading financing.

In the case of the Credit Tranche modality, the interest rate – denominated as the Rate of Charges, calculated by the IMF – oscillated in the range of 4% per year in 1999. The Supplementary Reserve Facility conditions (50% to mature in 12 months and the remaining 50% in 18 months) result in an increase of 300 base points over the Rate of Charges and another 50 points every six months in which the debt is rolled. Amortizations with the IMF also involve only the December 1998 drawdown, in the Supplementary Reserve Facility modality. The US$ 2 billion amortized corresponded to 50% of this drawdown. Since there were no amortizations of the funding taken in December 1998 through a Credit Tranche (US$ 745 million), with a grace period of more than 3 years, the balance of these liabilities in December 1999 totaled US$ 8.8 billion.

Other participating entities included international development organizations, IBRD and IDB. The treatment given these resources, however, was quite different. Since they were not classified as normalization operations or, in other words, were not to be used in financing the overall balance of payments results, the inflows were considered for the calculation of debt positions and net international reserves to which the performance criteria set down in the financial assistance program refer. Since the start of the program, the IBRD disbursed US$ 1 billion into social programs and the IDB channeled US$ 2 billion, also into programs of a social nature, and BNDES took on the task of onlending funding to small and medium businesses. Aside from complying with the conditions defined in the assistance program, these operations required specific approval of the National Congress.

International financial assistance program – external indebtedness targets

The agreement between Brazil and the IMF involved nominal targets for macroeconomic variables. Specific targets were classified as performance criteria or, in other words, noncompliance would disqualify the country for effecting automatic drawdowns of the available funds. Among these performance criteria, limits were set on the external debt of the nonfinancial public sector, private sector when guarantied by the public sector and short-term operations with the nonfinancial public sector (operations with maturities of less than 360 days). In calculating debt positions and then comparing these with the stated criteria, funding originating in the IMF, BIS and BoJ was not taken into consideration, since these entities were included within the financial assistance program.

Table 5.24 - Foreign debt targeting - 1999 (agreement with IMF)

US$ million

Period	Medium- and long-term		Short-term		Collateral	
	Target	Occurred[1/]	Target	Occurred	Target	Occurred[1/]
Mar	87 966	84 338	5 304	3 542	1 580	919
Jun	91 823	84 942	5 804	3 062	1 580	919
Sep	90 407	87 396	5 302	3 531	1 580	919
Dec	93 778	87 671	5 419	3 318	1 580	919

1/ Data cleared at the period.

The country fully complied with the targets on foreign indebtedness. The estimated stock for the nonfinancial public sector for December 1999 closed at US$ 6.1 billion below the target, which had been set at US$ 93.8 billion. On the same date, the ceiling on private debt guarantied by the public sector was set at US$ 1.6 billion, while the estimated total closed at US$ 919 million. In much the same way, while the limit for the short-term nonfinancial public sector debt was defined at US$ 5.4 billion for December, the effective value came to US$ 3.3 billion.

Net transfers of resources abroad

External credits channeled to the country registered net outflows of US$ 31.7 billion in 1999, as compared to net inflows of US$ 390 million in the previous year.

Excluding IMF operations, net credits from international organizations declined by US$ 825 million, due to growth in amortizations and interest payments, which were offset to some extent by the increase of US$ 416 million in financing granted. Financing inflows came to US$ 4.6 billion, including US$ 1.3 billion from the IBRD and US$ 2 billion from the IDB. The net flow of funding from the IBRD resulted in a net outflow of US$ 416 million, as compared to net inflows of US$ 704 million in the previous year. This performance was due to a reduction in disbursements and growth in amortizations and interest payments. The flow of funding in operations with the IDB, on the other hand, increased by US$ 295 million, since disbursements were greater than outflows of interest and amortizations.

Funding flows with government agencies resulted in net outflows of US$ 1.3 billion or US$ 586 million less than in the previous year. Payments to the Paris Club were responsible for this reduction, with a cutback of US$ 347 million in amortizations and US$ 257 million in interest payments. The balance with other agencies registered net inflows of US$ 382 million. The increase in amortizations and interest payments was partially offset by growth in disbursements.

The net financial flow with foreign banks reversed course in relation to 1998 and registered a negative result of US$ 5 billion, as a consequence of a US$ 3.1 billion decline in new disbursements and growth of US$ 2.3 billion in amortizations. Interest payments dropped by US$ 105 million.

External liabilities in the form of bonds resulted in net payments of US$ 35 million. This result was sharply better than in the previous year, when the total came to US$ 3.7 billion. This improvement was a consequence of placements of bonds of the Republic that generated new inflows of US$ 4.7 billion, and of a reduction of US$ 1.4 billion in amortizations.

Branches of foreign companies received a net total of US$ 138 million, classified under intercompany operations. This amount represents a reduction of US$ 4 billion in relation to 1998, caused by a cutback in disbursements and growth in amortizations of previously granted credits.

Table 5.25 - Brazil: Financial flow by foreign creditor[1/]

US$ million

Itemization	1994	1995	1996	1997	1998	1999
Total	-6 407	-3 493	-1 279	-9 301	390	-31 742
Disbursements	10 535	17 938	25 904	31 130	46 910	31 005
Amortizations	9 118	11 032	14 419	26 021	30 677	45 353
Interest	7 824	10 399	12 764	14 410	15 843	17 394
IBRD[2/]	-1 352	- 887	174	121	704	- 416
Disbursements	718	1 133	2 043	1 781	2 121	1 689
Amortizations	1 468	1 434	1 366	1 166	1 112	1 555
Interest	602	586	503	493	304	551
IDB	- 100	- 41	248	716	1 448	1 743
Disbursements	416	522	830	1 369	2 050	2 898
Amortizations	288	311	342	354	347	683
Interest	228	252	240	300	255	472
IMF[3/]	- 164	- 83	- 94	- 55	- 30	- 478
Disbursements	-	-	-	-	-	-
Amortizations	129	47	70	33	10	0
Interest	35	36	24	22	20	478
Government agencies	-1 691	-2 976	-3 987	-1 492	-1 853	-1 267
Agencies	- 173	- 374	- 154	760	400	382
Disbursements	306	403	394	1 260	1 144	1 454
Amortizations	354	550	355	319	563	801
Interest	125	227	194	181	181	271
Paris Club	-1 518	-2 602	-3 833	-2 252	-2 253	-1 649
Amortizations	643	1 493	2 136	1 496	1 497	1 150
Interest	875	1 109	1 697	756	756	499
Bonds	-1 770	-1 987	-2 549	-8 368	-3 665	- 35
Disbursements	200	1 819	1 263	2 751	2 698	4 719
Amortizations[4/]	480	629	571	7 624	2 867	1 444
Interest	1 490	3 177	3 240	3 496	3 496	3 310
Intercompany	- 193	282	474	1 324	4 146	138
Disbursements	632	1 133	1 578	3 062	6 266	3 237
Amortizations	454	402	355	494	875	1 838
Interest	371	449	749	1 244	1 244	1 260
Banks	-3 817	-3 205	-5 465	-3 056	230	-5 019
Disbursements	896	1 426	565	2 434	5 752	2 683
Amortizations	1 781	1 456	3 640	2 569	2 601	4 886
Interest	2 932	3 175	2 389	2 921	2 921	2 816
Others	2 680	5 404	10 166	1 509	- 591	-26 407
Disbursements	7 367	11 502	19 232	18 473	26 880	14 325
Amortizations	3 521	4 710	5 583	11 968	20 805	32 995
Interest	1 166	1 388	3 482	4 997	6 666	7 737

1/ Does not include suppliers'/buyers' credits.

2/ Includes IFC.

3/ Disbursements and amortizations regarding to exceptional financing are not included.

4/ In 1997, includes US$ 5.296 billion related to debt swap for brazilian treasury notes - NTN.