BRAZIL

1. General trends

Brazil's macroeconomic situation took a turn for the worse in 2001, with the economy growing by a meagre 1.5% after having reached 4.4% the previous year. The downturn steepened beginning in the second quarter, and in the last quarter output was down by 0.7% in comparison to the same period of 2000. This negative state of affairs carried over into the first half of 2002. Inflation climbed from 6% in 2000 to 7.7% in 2001, which was higher than the target rate. The economic downswing can be traced to the energy crisis that hit Brazil (see box 1) and to a series of external shocks, suggesting that external vulnerability and the sluggishness of basic investments continue to act as constraints on growth. Difficulties in raising external financing and the government's decision to persevere with its tight monetary policy also tended to dampen economic growth, since these factors were particularly detrimental to investment.

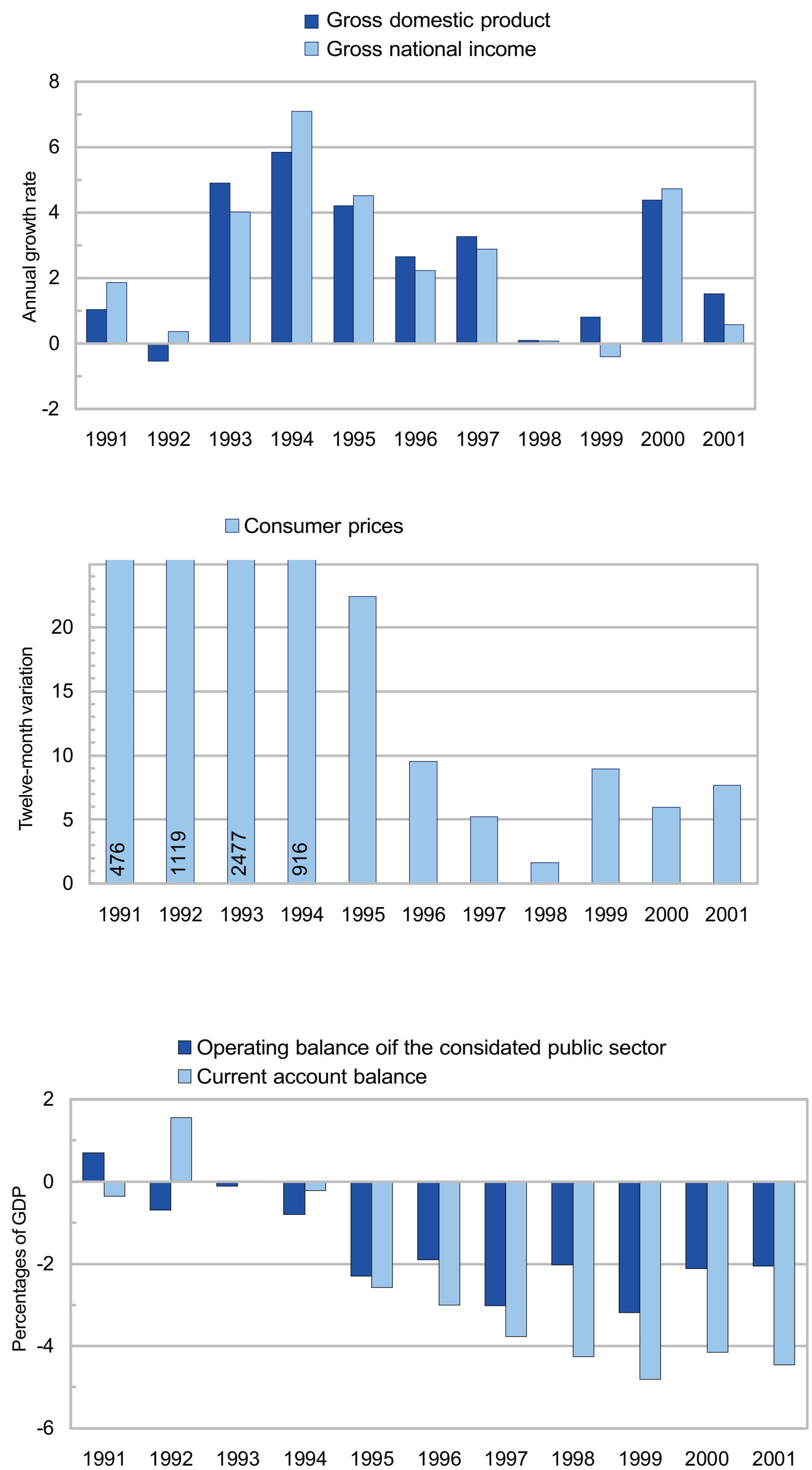
Box 1
THE ENERGY CRISIS

Brazil's energy crisis resulted from a severe drought –in a country that generates 93% of its energy from hydroelectric sources– and consistent under-investment in the energy sector throughout the 1990s. The transition from a State-run to a private regime, begun in the mid-1990s and still far from completed, is widely acknowledged to have been ill-planned. In particular, there is general agreement that too little emphasis has been placed on expanding investment; in fact, investment in State-run enterprises has been cut and the sector holds little attraction for private capital, which has been discouraged by the uncertainty surrounding the regulatory framework and the future of the privatization process.

The impact of the energy crisis on economic activity has not been calculated with any degree of precision, probably because it is difficult to isolate from the effects of interest rate hikes and trying macroeconomic conditions. The damage was initially over-estimated on the basis of reactions from the business community in the early stages of the crisis. In July, the National Confederation of Industry received grim reports from its members on the situation's effects in terms of output, employment and investment. In September, however, the results of a new Confederation survey gave grounds for a much less drastic assessment. For example, output estimates based on this second survey showed that two thirds of Brazil's large firms and half of its small and medium-sized enterprises had been unaffected by energy rationing. The remaining firms were likely to see their output fall by about 13% with respect to their initial forecasts for 2001.

In March 2002 the authorities were able to suspend the rationing scheme, thanks to heavy rainfall in the summer of 2001/2002 and users' redoubled efforts to save energy.

Figure 1
BRAZIL: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

The energy crisis obliged the authorities to ration electric power, which hurt domestic supply. The external environment was dominated by the economic slowdown in the United States, which was worsened by the terrorist attacks on New York on 11 September, and by Argentina's mounting difficulties in obtaining external financing. In response to these domestic supply and external demand shocks, the economic authorities employed a number of instruments to adjust to lower domestic demand and thereby avert more severe inflationary pressures or problems in financing the balance of payments. One such measure was the maintenance of high interest rates. The external adjustment was aided by the devaluation of the real, which helped the country achieve its first positive yearly merchandise trade balance since 1994, of US$ 2.6 billion.

The rate of open unemployment in major metropolitan areas dropped from 7.1% in 2000 to 6.2% in 2001 owing to lower rates of labour-market participation by the economically active population and, in part, to a 4% decline in the average real wage of employed workers. Meanwhile, household consumption stood still, after having grown by 3.8% in 2000.

The macroeconomic outlook began to brighten in late 2001 and the early months of 2002. In particular, starting in October 2001, the risk premiums applied to Brazil were less closely linked to those applied to Argentina, which helped to bring down the nominal exchange rate. This improvement was attributable in part to the fact that the United States recession was not as deep as had been feared, thanks to the rapid reduction in interest rates and the swift end to the war in Afghanistan. In addition, contagion from the Argentine crisis was less severe than expected. In August 2001, in view of turbulent economic conditions, Brazil and IMF agreed on a one-year extension, until December 2002, of their existing arrangement, under which nearly US$ 10 billion in additional assistance would be made available. Lastly, the Central Bank took successful measures to enhance its effectiveness, specifically by intervening in financial markets.

Since May 2002, however, expectations have been dampened by the uncertainty surrounding Brazil's electoral process. Growing fears over the type of economic policy the next administration might pursue have been reflected in the prices of financial assets, which, in turn, affect the exchange rate and domestic interest rates. As a result, real variables have become increasingly fragile, forming a fairly downbeat macroeconomic picture. This state of affairs brought about a devaluation of almost 10% in just three weeks. The worsening of the Argentine crisis, the new protectionist measures taken against Brazilian exports in the central economies and political difficulties in extending the tax on financial transactions have had repercussions for the balance of payments, public accounts and activity levels. Even the end of electricity rationing in February 2002 provided no further leeway for monetary and fiscal policy, which will almost certainly inhibit economic growth and hamper progress in reducing inflation.

2. Macroeconomic policy

(a) Fiscal policy

The public sector's nominal deficit increased from 4.5% in 2000 to 5.2% in 2001, fuelled by higher interest payments and devaluation. Nominal interest payments climbed from 8% to 8.9% of GDP, mainly because of the devaluation, which increased the amount of those payments by 1.6% of GDP. This was a reflection of the growing proportion of exchange-rate-indexed public securities, which came to account for 33% of the total in 2001, up from 22% in 2000.

Under pressure from external shocks, the government kept a tight rein on the public accounts by raising the primary fiscal surplus target for 2001 from 3% to 3.5% of GDP. This target was met for the third year running, with the primary surplus coming in at 3.7% of GDP. This achievement was not enough to offset the increase in interest payments, however. As on other occasions, higher tax and operating revenues from State enterprises contributed most of the extra funds needed to augment the primary surplus. The total tax burden was 33.1% of GDP in 2001, which was almost one point higher than the 2000 figure. Greater demand for hedging operations to offset exchange risk increased income tax revenues by 1.7 billion reais in 2001. In addition, the tax rate on financial transactions was increased from 0.3% to 0.38%. Lastly, the authorities consolidated the rate rises and new forms of tax collection initiated in 1999, including a withholding tax on fuels and the expansion of the base used to calculate the tax on banking transactions.

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	1993	1994	1995	1996	1997	1998	1999	2000	2001[a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	4.9	5.9	4.2	2.7	3.3	0.1	0.8	4.4	1.5
Per capita gross domestic product	3.4	4.3	2.7	1.2	10.3	3.6	4.1	11.3	7.6
Gross domestic product, by sector									
Goods	3.6	6.4	2.3	4.1	3.8	1.8	1.9	5.6	1.6
Agriculture	-0.1	5.5	4.1	3.1	-0.8	1.9	7.4	3.0	5.1
Mining	1.6	6.2	3.7	6.0	5.3	7.8	5.0	11.1	3.4
Manufacturing	8.3	7.0	2.0	2.1	3.2	-3.8	-1.6	5.4	0.6
Construction	4.5	7.0	-0.4	5.2	7.6	1.4	-3.2	3.0	-2.6
Basic services	5.6	5.6	9.8	5.8	5.1	2.4	4.4	7.3	0.5
Electricity, gas and water	5.0	4.2	7.6	6.0	5.9	3.8	2.5	4.1	-5.5
Transport, storage and communications	6.2	7.1	12.0	5.5	4.3	0.9	6.3	10.5	6.4
Other services	3.2	4.0	1.3	2.2	2.8	-1.2	1.0	4.2	1.7
Commerce, restaurants and hotels	7.9	9.4	8.5	1.8	3.0	-5.1	0.3	4.7	0.7
Financial establishments, insurance, real estate and business services	-1.4	-2.9	-8.1	2.5	3.2	-1.2	0.6	3.5	1.1
Consumption	4.1	5.9	7.0	3.1	5.2	1.6	2.1	5.0	1.9
General government	2.3	0.3	1.3	1.4	2.1	2.4	2.4	1.3	1.9
Private	4.6	7.5	8.7	3.7	3.1	-0.8	-0.3	3.8	0.0
Gross domestic investment	14.3	13.0	8.1	2.8	9.3	-0.3	-7.3	4.5	1.8
Exports of goods and services	11.7	4.0	-2.0	0.6	11.2	-0.3	9.2	11.4	12.1
Imports of goods and services	26.8	20.3	30.7	5.4	17.8	3.7	-14.7	14.4	0.7
	Percentages of GDP [c]								
Gross national income	97.7	98.6	98.9	98.6	98.4	98.1	96.9	97.4	96.5
Gross domestic investment	20.2	21.5	22.3	22.4	23.3	23.9	22.0	22.0	22.1
National saving	19.8	20.7	19.3	18.7	18.5	18.5	17.8	18.0	18.4
External saving	0.4	0.8	3.0	3.7	4.8	5.5	4.1	4.0	3.7
	Percentages								
Employment and wages									
Labour force participation rate [d]	58.6	59.3	59.3	59.6	58.5	58.2	57.1	58.0	56.5
Open unemployment rate [e]	5.4	5.1	4.6	5.4	5.7	7.6	7.6	7.1	6.2
Real average wage (index: 1995=100) [f]	95.6	96.3	100.0	107.9	110.8	110.8	105.9	104.8	99.6
	Growth rates								
Prices (December-December)									
Consumer prices	2,477.2	916.5	22.4	9.6	5.2	1.7	8.9	6.0	7.7
Wholesale prices	2,639.5	857.7	6.4	8.1	7.8	1.5	28.9	12.1	11.9
External sector									
Terms of trade (index 1995=100) [c]	79.9	91.5	100.0	98.0	103.8	103.8	93.6	90.9	90.7
Nominal exchange rate (reais per dollar)	0.03	0.6	0.9	1.0	1.1	1.2	1.8	1.8	2.4
Real effective exchange rate for imports (index 1995=100)	112.3	112.4	100.0	94.0	92.7	97.3	146.5	136.2	163.1
	Millions of dollars								
Balance of payments									
Current account	20	-1,153	-18,136	-23,255	-30,448	-33,450	-25,420	-24,669	-23,217
Trade balance (goods and services)	8,739	5,515	-10,652	-13,518	-17,394	-16,719	-8,261	-8,305	-5,107
Exports	43,595	49,010	52,641	52,509	59,870	59,037	55,206	64,469	67,545
Imports	34,856	43,495	63,293	66,027	77,264	75,757	63,467	72,774	72,652
Capital and financial accounts [g]	6,789	7,578	30,753	32,207	22,574	16,151	14,633	32,731	19,766
Overall balance	...	...	...	8,952	-7,873	-17 ,299	-10,788	8,061	-3,450
Variation in reserve assets (- indicates an increase)	...	...	...	-8,666	7,907	7,970	7,822	2,262	-3,307

Table 1 (concluded)

	1993	1994	1995	1996	1997	1998	1999	2000	2001 [a]
					Percentages				
External debt									
Gross debt (as a percentage of GDP)	33.1	27.1	22.6	23.2	24.8	30.7	45.6	39.7	43.4
Net interest (as a percentage of exports) [h]	19.3	14.3	16.9	18.2	17.3	21.5	27.8	22.8	22.5
					Percentages of GDP				
Federal government									
Total income	17.3	18.8	18.0	18.1	18.6	20.5	22.2	22.5	23.8
Total expenditure	22.0	17.9	20.5	20.5	-20.9	-29.2	- 21.3	- 7.2	27.6
Current saving	-2.3	1.9	-1.5	-1.3	-2.1	-4.3	- 6.5	- 2.3	-1.9
Financial balance	-4.7	0.9	-2.5	-2.4	-3.0	-5.2	- 7.2	- 3.2	-3.9
Operating balance of the consolidated public sector [i]	-0.1	-0.8	-2.3	-1.9	-3.0	-2.0	- 3.2	- 2.1	-2.1
					Growth rates				
Money and credit									
Net international reserves	35.6	20.5	33.6	16.0	- 13.2	- 14.6	- 18.4	- 9.2	8.6
Money (M1)	2,129.4	- 99.0	23.4	4.6	58.9	7.1	23.7	17.9	13.2
					Annual rates				
Real interest rates (annualized, %)									
Deposit rate	88.2	40.7	-11.8	9.8	17.8	24.1	19.8	10.5	9.2
Lending rate	209.3	122.2	10.3	27.5	38.2	50.8	49.1	30.0	29.7
Equivalent interest rate in foreign currency [j]	1,986	2,505	51.2	27.0	26.0	28.6	22.5	17.2	16.0

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on reais at constant preceding-year prices. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population in six metropolitan areas. [e] Percentage of the economically active populationin six metropolitan areas. [f] Workers covered by existing social and labour laws. [g] Includes errors and omissions. [h] Refers tonet interest as shown on the balance of payments, divided by exports of goods and services. [i] Includes operating adjustments. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

The impact of the currency devaluation on government-administered prices, including fuel prices, helped to boost state and federal tax receipts. In addition, thanks to higher petroleum prices, PETROBRAS posted excellent results in 2001, with profits of 9.8 billion reais, or 0.8% of GDP.

Total spending expanded by 15.2%, led by investment and other current expenditure (19.6%). The deficit recorded by the general social security system, meanwhile, was 1.1% of GDP in 2001, up from 0.9% in 2000; the amount of benefits paid out was equivalent to 6.3% of GDP.

A number of measures relating to the Fiscal Responsibility Act adopted in April 2000 came into effect in 2001. New rules on budget preparation and execution, caps on staff expenditure, cooperation among government bodies to contain spending and the imposition of strict conditions for any increase in spending and borrowing helped to enhance the financial performance of states and municipalities. The primary surplus posted by these subnational entities climbed from 0.6% to 0.9% of GDP in 2001.

Net public-sector debt rose to 53.1% of GDP in 2001, as compared to 49.4% in 2000, chiefly because of the currency devaluation and the recognition of contingent liabilities.

A primary surplus of 3.5% of GDP is anticipated for 2002. This would represent a step towards achieving a lower nominal deficit but, for this to happen, the exchange rate would also have to rise more slowly than in 2001 and interest rates would have to come down. The arduous process of winning congressional approval for the extension of the tax on financial transactions, however, has already generated losses of 6 billion reais, which is equivalent to a third of the 2000 receipts for this tax. The government responded by announcing

Table 2
BRAZIL: MAIN QUARTERLY INDICATORS

	1999				2000				2001 [a]				2002 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product [b] (change from same quarter of preceding year)	0.7	-0.4	-0.4	3.5	5.3	4.4	4.2	3.7	4.3	2.1	0.5	-0.7	-0.7
Consumer prices (12-month variation, %)	3.9	3.1	5.9	8.4	5.8	5.5	7.0	5.3	6.3	8.1	7.3	9.4	9.7
Exports (millions of dollars)	10,045	12,406	12,581	12,979	12,048	14,105	15,246	13,687	13,788	15,139	15,447	13.849	11,890
Imports (millions of dollars)	10,860	12,209	12,734	13,414	12,022	13,272	15,351	15,053	14,467	14,530	14,120	12,456	10,862
International reserves (millions of dollars)	33,848	41,346	42,562	36,342	39,200	28,265	31,431	33,011	34,407	37,318	40,054	35,866	36,721
Real effective exchange rate [c] (index 1995=100)	148.2	139.0	148.6	150.4	136.5	136.3	133.2	138.8	146.4	160.4	174.7	171.0	138.0
Money (M1) (change from same quarter of preceding year)	4.5	1.1	1.0	13.3	10.7	13.3	18.2	13.5	16.7	11.9	7.3	1.6	0.6
Real interest rates (annualized,%)													
Deposit rate	32.2	22.1	14.4	10.4	10.9	12.0	9.5	9.6	8.7	8.0	10.9	8.9	1.6
Lending rate	68.9	55.9	39.6	31.9	33.5	31.4	27.6	27.6	25.5	29.9	33.8	30.3	21.6

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] On the basis of constant local prices. [c] Refers to the exchange rate for imports.

spending cuts and an increase in the rate of a separate financial transactions tax. Moreover, 2002 will bring no non-recurring receipts, as no new privatizations or large concessions are planned.

(b) Monetary policy

The 7.7% rate of inflation in 2001 –which was well above the target rate of 4%– and the significant exchange-rate hike posed a formidable challenge for monetary policy. The upward pressure on inflation was perceived early in the year, and starting in March the Central Bank began to raise the benchmark interest rate, which had dipped to 15.25% a year, the lowest rate since July 1994. Between March and July the benchmark rate was increased to 19%, where it stayed until February 2002, when it was lowered to 18.75%.

Monetary policy came under pressure from exchange-rate volatility several times during the year. As well as raising the rate on deposits, the Central Bank employed a number of other means of monetary tightening, including open-market operations with exchange-rate-indexed securities and the reduction of bank liquidity through measures to raise the reserve requirements on time deposits and impose stricter minimum capital requirements for currency transactions. As from July, the Central Bank sold US$ 50 million per day in order to expand supply in the currency market, and by the end of December had sold US$ 6 billion.

The monetary base expanded by 11.7% and the money supply, by 11.2%, resulting in a real expansion of less than 4%, which was the lowest since 1999. This was partly attributable to the National Treasury's positive balance and the sale of international reserves. The smaller expansion of liquidity affected the financial system's level of credit, which increased by only 4.2% in 2001.

Since 1999, monetary policy has been managed within a framework of inflation targets. The target was overshot in 2001 because of the impact of devaluation and increases in government-administered prices, as well as a degree of inertia. In the early months of 2002, the annualized rate of inflation hovered around 8% owing to further increases in government-administered prices, including those for fuels. Even so, the Central Bank decided to lower the base rate of interest to 18.5% a year. It has been unwilling to lower this rate again, however, in view of the higher rate of inflation and the volatility of the exchange rate in May.

In 2002 the Central Bank instituted a mechanism under which exchange-rate-indexed public securities could be swapped for paper indexed to the base interest rate and combined with a foreign-exchange swap, in order to broaden its scope for intervention without the need for new issues of this type of security. One of the reasons for this measure was that, under the Fiscal Responsibility Act, as from the second half of 2002 the Central Bank can no longer issue its own securities, but must use those issued by the National Treasury to implement its open-market policy. This change coincided with the launch of the Brazilian payments system, which enables interbank transfers to be conducted in real time, thus eliminating the Central Bank's systemic risk. Lastly, in order to limit its role to that of monetary authority, the Central Bank ceased to participate in the reciprocal credit mechanism established to finance external trade among the Latin American countries.

(c) Foreign-exchange policy

The exchange rate was highly volatile during most of 2001, largely in anticipation of the measures that Argentina might take to cope with its fiscal and financial crisis. The nominal exchange rate rose by 20.4% during the year, while Brazil's average real import-weighted exchange rate with its main trading partners increased by 19% with respect to the figure for 2000.

Beginning in July, the Central Bank intervened several times in the market by selling dollar-indexed public debt instruments (which hedged against exchange risk). This was in addition to the regular sale of set amounts of dollars, as mentioned earlier, which continued until the year's end. The Central Bank also began to disclose the amounts of its holdings available for intervention in the foreign exchange market, as a way of steering expectations. In August, Brazil signed a new agreement with IMF to allay the uncertainty surrounding its foreign-exchange and fiscal solvency.

The exchange rate behaved erratically in the early months of 2002. After rising by 4.2% in January, it dipped by 2.9% in February in the wake of the change in the Central Bank's policy on dollar-indexed securities. It then held steady until May, when it climbed steeply to reach levels even higher than those of December 2001. In the first quarter of 2002 the real exchange rate against the dollar declined by 8% with respect to the fourth quarter of 2001; it also dropped by 19% against the currencies of Brazil's main trading partners, largely because of a real appreciation of 51% in relation to the Argentine peso.

3. The main variables

(a) Economic activity

GDP grew very unevenly over the year, with a slight increase overall. The favourable growth trend that began in the fourth quarter of 1999 began to change direction in the second quarter of 2001, as macroeconomic variables were affected by developments in the international economy and by the domestic energy crisis (see box 1), in combination with domestic phenomena that thwarted expectations of expansion.

Fixed investment grew by 1.8% in 2001, which kept it at around 19% of GDP. In the construction sector, poor performance was offset by the 5.1% expansion of investment in machinery and equipment despite the recessionary environment that prevailed for most of the year. Investment behaved in a highly procyclical manner throughout the year. While gross capital formation increased by 11% in the first quarter, it dropped to 2.8% and 1.7% in the second and third quarters, respectively, and contracted by 7.5% in the last quarter. Consumption was slightly up (1.9%), though its growth rate trended downward during the year and was, in any event, lower than that of gross fixed investment. Exports grew vigorously, with a volume increase of more than 9%, which remained fairly constant throughout the year. By contrast, imports posted moderate growth, with an overall rise of almost 2% but with wide fluctuations during the year, as they expanded strongly early on and contracted sharply at year's end.

The different sectors turned in a mixed performance. The bumper crop of 98.5 million tons of grain, which was 18% bigger than the 2000 harvest, was the main component of a 5.1% increase in agricultural output. This contrasted with the results posted by manufacturing, which grew by a meagre 0.6%; construction, which declined by 2.6%; and utilities, including the beleaguered electricity segment, which were down by 5.5%. Mining expanded by 3.4%, while services achieved mid-level growth of 2.5% overall, with slight upturns in commerce (0.7%) and transport (1%) and strong expansion in communications (11.9%).

Manufacturing output was also uneven, with capital goods, particularly agricultural and electrical equipment, up by 12.8%, while the other main segments (intermediate and consumer goods) stood still or slipped back. Output of consumer durables declined by 0.6%, mainly because of shrinking demand in response to energy rationing. These figures, however, reflect the combination of good performance in the first half of the year followed by a steep downturn in the second. The automotive industry grew at an annual rate of 7.5%, but experienced a downswing of 6% in the second half of 2001.

In 2002 agriculture is expected to be the fastest-growing sector again, with a rate of around 3.5%. The outlook for manufacturing is rather bleak, as doubts remain as to how it will withstand the impact of the Argentine crisis on industrial exports and interest rates, which have a direct bearing on producers and consumers. In the first quarter of 2002, output dropped again in relation to the year-earlier period, but in comparison to the fourth quarter of 2001 the seasonally-adjusted figures show a slight upturn. Overall, growth in 2002 is expected to be similar to its 2001 level.

(b) Prices, wages and employment

Inflation was 7.7% in 2001, which was almost two percentage points above the 2000 figure. The culprit in this rise was the currency devaluation during the year and its effects on government-administered prices (including those for petroleum products, electricity, telephone services, water and sewerage, cooking gas and urban transport), which account for almost 31% of Brazil's extended national consumer price index. The currency depreciated by 20.4% in 2001, while government-administered prices increased by 10.4% and other prices, by 6.5%. According to the Central Bank, 40% of inflation in 2001, or 2.9 percentage points, was attributable to the rise in the exchange rate. The impact of the devaluation was uneven because the higher prices of imported inputs and machinery did not pass through to end prices in some sectors, while the opposite occurred in others. This was the case of wheat and soybean products, whose prices were the fastest-climbing CPI components.

The Central Bank's initial estimates for 2002 pointed to a rise of over 5.2% in government-administered prices. The Central Bank will have to consider the impact of fuel prices on the inflation target, however, in view of the volatility of these prices, which dropped by almost 10% in the wake of the January price deregulation before returning to late-2000 levels. In addition, excellent agricultural output in 2002 is expected to have a favourable effect on inflation. In May, the leading financial institutions forecast an inflation rate of 5.5%, which would represent the upper limit of the target rate.

Owing to the subdued GDP growth, net new job creation in 2001 was down by 11% from the previous year. Even so, for most of the year unemployment rates in the metropolitan areas were stable at around 6.2%, which was lower than the 2000 rate. The decrease in unemployment in 2001 was a reflection of lower labour-market participation by people of working age in the large metropolitan areas, which, according to an assessment conducted by the Institute of Applied Economic Research, may be due to both positive factors, such as the return of children to school, and negative factors, such as discouragement at the lack of job opportunities. The latter point is also borne out by the decline in the average income of active workers, which in December 2001 was 8% lower than it had been a year earlier, bringing the cumulative decline since the end of 1998 to 17%. On a more positive note, the labour market also saw a break in the informal sector's expansionary trend and greater job stability in manufacturing.

Average real wages in the main metropolitan regions have slid by 10.2% since 1997. Data from the National Confederation of Industry show an average real increase of 3.2%, but this figure reflects the wages paid in large and medium-sized industrial enterprises. By contrast, the official data on the metropolitan regions were compiled at the household level and take into account both formal- and informal-sector workers. The minimum wage showed an average real increase of 9% with respect to the 2000 figure.

(c) The external sector

The value of total exports increased by 5.7% in 2001. Commodities were the strongest performers, with growth of 22.1%, in comparison to a small upturn in manufactures (1.1%) and a decline in semi-manufactures (3%). The higher value of commodity exports was attributable to a 33.3% increase in volume, led by soybeans, maize, meat and crude petroleum. The positive effect of the volume increase was attenuated by steep declines in international prices, however. The price downturn was 3.5% for total exports, 8.4% for commodities and 10.5% for semi-manufactures, while prices for manufactured goods rose slightly (0.3%). Exports of semi-manufactures showed an 8.4% volume increase, but this could not make up for the sharp drop in prices.

A number of products benefited from specific situations elsewhere, such as outbreaks of mad cow disease, which helped to boost exports of beef and chicken, and low sugar stocks, which paved the way for increased shipments. There was also a considerable volume increase in exports of vegetable oils, coffee and other food products.

Starting in July, the export value of manufactured and semi-manufactured goods trended downward owing to the effects of energy rationing in combination with the global economic slowdown, especially in the United States and Argentina. The country's manufactures exports plunged, given that Argentina absorbs almost a quarter of these exports. The downturn was especially severe in motor vehicles and parts, iron and steel products, petrochemicals and electronic equipment. The second half of the year brought an upswing in total exports, however, as exporters gained a foothold in new markets in other regions and the export basket became more diversified.

The value of total imports declined by 0.4%. Raw materials and intermediate goods imports fell by 3.8% and fuel imports, by 1.4%. Meanwhile, imports of capital goods grew by a significant 8.9%, and those of consumer durables, by a smaller 2.6%.

The cumulative surplus for the period January-April 2002 was US$ 1.5 billion, which represented an upturn after the deficits recorded in 2001. This result was due exclusively to a strong contraction in imports, however, which more than offset the decline in exports. Total exports amounted to US$ 16.5 billion, down by 10.7% in relation to the same period of 2001, while total imports amounted to US$ 15 billion, which represented a decrease of 21.3%. The total volume of exports was slightly down, while their unit value decreased by just over 9%. The export prices and volumes of the different segments reacted unevenly to slackening external demand, however. Commodity prices fell, but larger volumes were exported. By contrast, in semi-manufactures and manufactures, both prices and volumes were down, largely because Argentina's imports shrank by about two thirds in the early months of 2002 as it sank deeper into economic crisis.

The decrease in the total value of imports reflected the slowdown in domestic activity. In the first quarter of 2002 import volumes dropped by 25.5% and prices, by 7.4%. Volumes contracted sharply (by 20% to 38%) across all the major sectors, while prices exhibited more moderate downturns, with the exception of fuel prices, which tumbled by 30%.

The balance of payments closed the year with a US$ 3.3-billion surplus, which contrasted with the US$ 2.3-billion deficit recorded in 2000. The current-account deficit narrowed from US$ 24.7 billion (4.1% of GDP) to US$ 23.3 billion (4.6% of GDP). In the first quarter of 2002, the current-account deficit (US$ 3.2 billion) was half the sum recorded in the same period of 2001 (US$ 6.7 billion) and, in GDP terms, represented a substantial drop from 5.4% to 2.5%. This reflected the fact that the merchandise trade balance swung from a deficit of almost US$ 700 million in the first quarter of 2001 to a surplus of US$ 1 billion. In addition, the services deficit decreased from US$ 6.4 billion in the first quarter of 2001 to US$ 4.6 billion a year later.

The capital account yielded a positive balance of US$ 4.4 billion in the first quarter, although this was lower than the figure of US$ 7.2 billion posted in the year-earlier period. A number of factors were involved in this downturn, including an increase in net outward investment (from US$ 120 million to US$ 530 million) and a considerable decline in other types of investment, which moved from a net positive balance of US$ 63 million to an outflow of US$ 1.9 billion in January-March 2002. This affected mainly assets abroad and liabilities in the form of trade credits, loans and regularization operations. By contrast, net inflows of direct investment and portfolio investment remained stable, at US$ 4.7 billion and US$ 2.4 billion, respectively.

International reserves stood at US$ 36.7 billion, with no major variations since mid-2000. This was equivalent to eight months' worth of merchandise imports.

In September 2001, Brazil's Central Bank introduced a new methodology for the valuation of external debt. Under the new procedure, commitments which have been converted into investments, cancelled under debt relief schemes or written off because of debtor bankruptcy are subtracted from the total value, while loans between firms are treated as direct investment.

Total external debt was US$ 193 billion at the end of 2001, of which US$ 183 billion (95% of the total) represented medium- and long-term liabilities and US$ 10 billion, short-term ones. Loans between firms, which were not included in total external debt, amounted to US$ 16 billion. Bonds and securities account for 60% of total external debt. With regard to maturities, 46% of Brazil's debt matures within three years and 65%, within five years. Moreover, 60% of commitments carry fixed rates of interest, compared to only 25% in the early 1990s.