Brazil

1. General trends

Predictions that Brazil's GDP would grow by some 3.7% in 2004 have been borne out by the level of economic activity in the first few months of the year. Exports should continue to boost the economy, but recovery will ultimately depend on whether domestic demand picks up from its very low level of 2003. This recovery of demand should essentially reflect lower real interest rates, better domestic financing conditions and a bigger wage bill.

In early 2003 strict monetary and fiscal measures were adopted to rein in the accelerating inflation rate and regain international financial markets' confidence, which had been eroded by a lowering of expectations in the second half of 2002. The measures had the desired results: 12-month inflation decreased from 17.2% in May 2003 to 9.3% in December, which was within the target range, and then fell to 5.2% in May 2004, while the country risk premium dropped from over 2,200 points in the second half of 2002 to about 470 in January 2004.

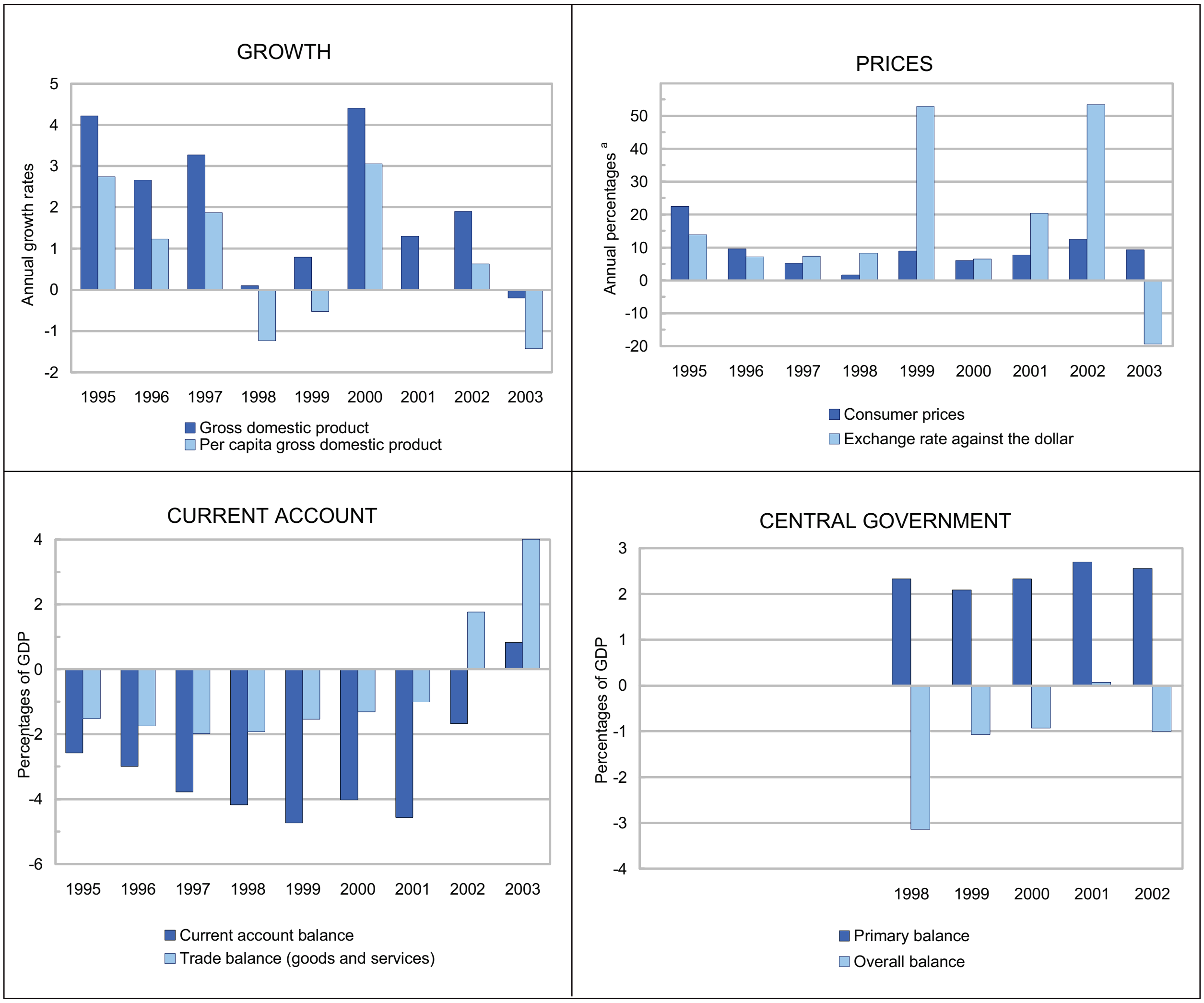
The monetary and fiscal measures were felt most strongly in the first half of 2003. Monetary policy changed course in June, with the initiation of a process of gradually reducing the Special System for Settlement and Custody (SELIC) interest rate. As a result, GDP and industrial output began to recover in the third quarter of 2003; this trend grew stronger in the first five months of 2004.

In the first half of 2003 a drop in real income reinforced the effects of monetary and fiscal policy in terms of limiting demand. Despite a recovery in demand for consumer goods, especially durables, household consumption contracted by 3.3% in the last few months of 2003 in comparison to its level in the same period of 2002. Gross fixed investment fell by 6.6%, reflecting a downturn in construction, and brought the investment rate for the year as a whole to its lowest level since 1985 (18% of GDP). The lethargy of domestic demand stood in sharp contrast to the remarkable buoyancy of export activity in 2003. The value of merchandise exports leapt by 21% in the course of the year, and the trade balance ran a record surplus of US$ 24.825 billion.

The increase in foreign-exchange inflows as a result of the trade surplus and the improvement in external financing conditions as compared to the unfavourable situation in 2002 brought the exchange rate down from almost 4 reais per dollar at the end of 2002 to 2.89 reais in December 2003. That rate held steady until the end of April 2004, when the foreign-exchange market came under pressure because of the re-emergence of unfavourable expectations concerning the external situation, particularly the rise in United States interest rates.

The unemployment rate remained high in 2003, at a monthly average of 12.3% in metropolitan areas. In the initial months of 2004 unemployment showed a clear upward trend, rising to 13.1% in May because of significant growth in the labour-force participation rate. Real income fell sharply in the course of 2003, to the point where its level in the last quarter of the year was 15% below the year-earlier figure.

Figure 1
BRAZIL: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] December-December variation.

2. Economic policy

In 2003 economic policy was geared to two specific aims: keeping interest rates high and increasing the public sector's primary surplus (from 3.89% to 4.32% of GDP). In the first two months of 2003 the central bank raised the benchmark (SELIC) interest rate to 26.5%, as against 25% in December 2002 and an average of 19% over the course of that year. In order to achieve a primary surplus, the government took steps to curb expenditure and maintain the real level of public revenues. For 2004 and up to 2007,[1] the primary surplus target will remain at 4.25% of GDP, in view of the high level of net public borrowing (58.7% of GDP in December 2003).

(a) Fiscal policy

In order to meet its primary surplus target, the federal government used the effects of inflation to reduce real expenditure and made efforts to compensate for the lower level of non-recurring receipts in 2002. In real terms, revenues diminished by 2.9% and expenditure, by 4%. In addition to public-sector wages, which declined in real terms, the government's other current expenditures also went down, as did capital expenditures, falling by almost 12% in real terms.

To maintain the surplus, in 2003 the government adopted constitutional reforms intended to reduce the social security deficit[2] (especially with regard to civil-service retirement benefits), as well as tax and budget reforms designed to maintain a high volume of tax receipts (about 36% of GDP). The government also undertook to reorganize the structure of certain taxes, especially the goods and services tax (ICMS), which the states are responsible for collecting.

Nominal public-sector financing needs rose to 5.2% of GDP in 2003, from 4.6% in 2002. The increase was due mainly to higher interest payments, the cost of which was up from 8.5% to 9.5% of GDP. The measures adopted in 2003 made it possible to control the expansion of net public debt, which in December amounted to 58.7% of GDP, as against 57.4% of GDP at the end of 2002. The composition of net public debt also showed an improvement. The proportion of dollar-indexed domestic public debt instruments out of total domestic public debt paper decreased from 33.5% in 2002 to 19% in March 2004; this made the debt-to-GDP ratio less vulnerable to variations in the exchange rate.

Meanwhile, the proportion of securities with fixed interest rates or rates indexed to domestic inflation increased, as did the average maturity of domestic securities issues.

In the period January-April 2004 the public sector recorded a primary surplus of 32.4 billion reais (6.4% of GDP), which was close to the amount agreed upon with the International Monetary Fund (IMF) for the first half of the year. The cumulative primary surplus for the period May 2003-April 2004 was equivalent to 4.23% of GDP, nearly reaching the target for 2004 as a whole (4.25%). Between January and April 2004 the public sector's nominal deficit fell dramatically, to 1.73% of GDP, compared to 3.97% of GDP in the same period of 2003.

In 2004 the fiscal austerity targets have generally been maintained. The government has continued to show caution in authorizing expenditure, making it contingent on revenue flows. These flows should increase in view of the country's faster economic growth and the higher social security contribution rates applied to service sectors. It is also expected that in the course of 2004 the reform of the civil-service pension system will begin to generate savings, both from taxes on benefits received by retirees and other pensioners and from the postponement of new retirements through the establishment of a higher minimum age.

(b) Monetary policy

In addition to raising the interest rate to meet the objectives of the inflation-targeting system, in 2003 the monetary authorities took steps to control the growth of monetary aggregates: the inflation targets for 2003 and 2004 were set at 8.3% and 5.5%,

1 This is the period covered by the multi-year plan for 2004-2007.
2 This reform's implementation is contingent on a review of its constitutionality by the Federal Supreme Court.

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
					Annual growth rates [b]				
Gross domestic product	4.2	2.7	3.3	0.1	0.8	4.4	1.3	1.9	-0.2
Per capita gross domestic product	2.7	1.2	1.9	-1.2	-0.5	3.1	0.0	0.6	-1.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.1	3.1	-0.8	1.3	8.3	2.2	5.8	5.5	5.0
Mining	3.4	7.5	5.5	8.6	5.9	10.5	3.2	6.2	2.8
Manufacturing	2.1	2.1	2.9	-3.5	-2.5	5.1	0.4	3.2	0.7
Electricity, gas and water	7.6	6.0	5.9	5.2	1.4	4.2	-5.6	3.0	1.9
Construction	-0.4	5.2	7.6	1.5	-3.7	2.6	-2.7	-1.8	-8.6
Wholesale and retail commerce, restaurants and hotels	8.5	1.8	3.0	-4.7	-0.6	4.5	0.5	-0.2	-2.6
Transport, storage and communications	12.0	5.5	4.3	0.9	4.0	8.6	5.8	6.5	-0.3
Financial institutions, insurance, real estate and business services	-0.6	2.8	3.1	1.9	1.9	4.3	1.9	1.7	0.6
Community, social and personal services	1.4	1.3	1.0	2.1	2.1	1.8	0.9	0.2	-0.5
Gross domestic product, by type of expenditure									
Consumption	7.0	3.1	2.9	0.0	0.3	3.2	0.6	-2.5	-2.3
General government	1.3	1.4	2.1	2.4	2.4	1.3	1.0	1.4	0.6
Private	8.7	3.7	3.1	-0.8	-0.4	3.8	0.5	-3.7	-3.3
Gross domestic investment	8.1	2.8	8.3	-0.6	-7.6	10.0	-1.5	-5.1	-3.7
Exports (goods and services)	-2.0	0.6	11.1	3.7	9.2	10.6	11.2	7.9	15.5
Imports (goods and services)	30.7	5.4	17.8	-0.3	-15.5	11.6	1.2	-12.3	-1.8
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	22.3	20.9	21.5	21.1	20.2	21.5	21.2	19.8	20.1
National saving	19.5	17.8	17.4	16.8	15.4	17.3	16.7	18.6	20.9
External saving	2.8	3.1	4.1	4.3	4.7	4.2	4.5	1.1	-0.8
					Millions of dollars				
Balance of payments									
Current account balance	-18 136	-23 248	-30 491	-33 829	-25 400	-24 225	-23 213	-7 695	4 063
Merchandise trade balance	-3 157	-5 453	-6 652	-6 603	-1 261	-698	2 651	13 143	24 824
Exports, f.o.b.	46 506	47 851	53 189	51 136	48 011	55 086	58 223	60 362	73 084
Imports, f.o.b.	49 663	53 304	59 841	57 739	49 272	55 783	55 572	47 219	48 260
Services trade balance	-7 495	-8 059	-9 309	-9 045	-6 983	-7 162	-7 759	-5 038	-5 076
Income balance	-11 105	-12 177	-16 344	-19 617	-18 844	-17 886	-19 743	-18 190	-18 552
Net current transfers	3 621	2 441	1 814	1 436	1 688	1 521	1 638	2 390	2 867
Capital and financial balance [d]	31 105	31 930	22 240	17 527	8 635	32 206	19 763	-3 483	-336
Net foreign direct investment	3 475	11 667	18 608	29 192	26 886	30 498	24 715	14 084	9 895
Financial capital [e]	27 630	20 263	3 632	-11 665	-18 251	1 708	-4 952	-17 567	-10 231
Overall balance	12 969	8 682	-8 251	-16 302	-16 765	7 981	-3 450	-11 178	3 727
Variation in reserve assets [f]	-12 920	-8 326	8 284	6 990	7 783	2 260	-3 307	-302	-8 496
Other financing [g]	-49	-356	-33	9 312	8 983	-10 242	6 757	11 480	4 769
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	75.7	72.3	71.1	73.6	108.5	100.0	120.1	134.7	135.2
Terms of trade for goods (index: 1997=100)	96.4	94.5	100.0	100.0	90.2	87.6	87.4	84.7	84.3
Net resource transfer (% of GDP)	2.8	2.5	0.7	0.9	-0.2	0.7	1.3	-2.2	-2.9
Total gross external debt (billions of dollars)	165	187	208	259	241	236	226	228	235
Total gross external debt (% of GDP)	23.5	24.1	25.8	32.0	45.0	39.2	44.5	49.4	47.8
Net profits and interest (% of exports) [i]	-20.8	-23.1	-27.7	-33.5	-34.4	-27.8	-29.4	-26.1	-22.3

Table 1 (concluded)

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
	Average annual rates								
Employment									
Labour force participation rate [j]	59.3	59.6	58.5	58.2	57.1	58.0	56.4	56.7	57.1
Open unemployment rate [k]	4.6	5.4	5.7	7.6	7.6	7.1	6.2	7.1	...
Visible underemployment rate [k]	...	...	...	...	...	...	...	3.6	4.4
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	22.4	9.6	5.2	1.7	8.9	6.0	7.7	12.5	9.3
Variation in wholesale prices	6.4	8.1	7.8	1.5	28.9	12.1	11.9	35.4	6.3
Variation in nominal exchange rate (December-December)	13.9	7.2	7.4	8.2	52.9	6.5	20.4	53.5	-19.4
Variation in average real wage	3.8	7.9	2.6	0.0	-4.4	-1.0	-5.0	-2.1	-8.7
Nominal deposit rate [l]	...	...	24.9	27.5	25.8	17.5	17.4	19.0	23.3
Nominal lending rate [m]	...	...	63.2	66.6	64.8	41.9	41.1	44.4	49.8
	Percentages of GDP								
Central government									
Total income (central government) [n]	...	...	...	...	18.1	17.8	18.9	19.7	19.7
Total expenditure (central government) [o]	...	...	...	...	21.4	19.0	20.2	20.1	20.7
Primary balance (federal government)	...	...	...	...	2.2	2.0	1.9	2.3	2.6
Operating balance (central government) [p]	...	...	...	...	-3.1	-1.1	-0.9	0.1	-1.0
Consolidated public-sector debt	30.6	33.3	34.4	41.7	49.2	49.4	52.6	55.9	58.2
Domestic	25.0	29.4	30.1	35.5	38.8	39.7	42.2	41.5	46.3
External	5.6	3.9	4.3	6.2	10.4	9.8	10.4	14.4	11.9
Money and credit [q]									
Domestic credit [r]	39.8	40.3	41.1	42.6	47.3	43.7	44.4	46.4	46.4
To the public sector	4.8	7.8	10.5	9.4	12.1	10.9	11.0	13.9	13.5
To the private sector	35.0	32.4	30.7	33.3	35.2	32.8	33.4	32.6	32.8
Liquidity (M3)	30.5	25.1	26.2	30.7	31.9	27.0	27.2	29.1	29.1
Currency in circulation and local-currency deposits (M2)	23.9	22.7	23.8	26.9	26.7	24.2	24.2	25.9	25.8
Foreign-currency deposits	6.5	2.5	2.4	3.8	5.2	2.8	3.0	3.2	3.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures. [b] Chain index; base: 1990=100. [c] Based on figures in local currency at current prices. [d] Includes errors and omissions. [e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. [f] A minus sign (-) denotes an increase in reserves. [g] Includes the use of IMF credit and loans and exceptional financing. [h] Annual average, weighted by the value of merchandise exports and imports. [i] Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. [j] Economically active population as a percentage of the working-age population; six metropolitan areas. [k] Percentage of the economically active population; six metropolitan areas. [l] Certificates of deposit. [m] Pre-set corporate rate. [n] Refers to total income net of transfers. [o] Includes real interest. [p] Includes adjustments to the operating balance. [q] The monetary figures are annual averages. [r] Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

respectively, with an allowable deviation of 2.5 percentage points in either direction. Interest rates began a gradual descent in July 2003, after having remained for five months at 26% per year, and reached 16.5% in December. From June onward the central bank refrained from intervening in the foreign-exchange market and scaled back its operations with public securities carrying swap options linked to either domestic interest rates or the devaluation rate.

In 2004 the authorities have been more circumspect in lowering interest rates; the basic annual rate remained at 16% until June. The authorities also announced their intention to increase international reserves and continue the process of reducing the government's liabilities in exchange-rate-indexed securities.

In the first few months of 2003 the central bank tried to curb the expansion of monetary aggregates, mainly by increasing mandatory deposit requirements and withdrawing from circulation an amount of resources equivalent to 2% of GDP. Starting in August the reserve requirement for sight deposits was reduced from 60% to 45% and measures were taken to increase liquidity, including the reallocation of some of the mandatory bank deposits to specific sectors.

Table 2
BRAZIL: MAIN QUARTERLY INDICATORS

	2002				2003 [a]				2004 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	-0.2	1.0	3.1	3.8	1.1	-0.5	-1.3	-0.1	2.7	...
Merchandise exports, f.o.b. (millions of dollars)	11 891	13 161	18 466	16 844	15 045	17 957	19 788	20 294	19 448	...
Merchandise imports, f.o.b. (millions of dollars)	10 863	11 603	13 199	11 572	11 239	11 364	12 393	13 263	13 280	...
International reserves (millions of dollars)	36 721	41 999	38 406	37 823	42 335	47 956	52 675	49 296	51 612	49 796
Real effective exchange rate (index: 2000=100) [c]	111.7	117.0	145.8	164.5	153.2	130.9	128.1	128.6	129.9	134.2
Urban unemployment rate [d]	12.2	12.0	11.7	10.8	11.6	12.7	12.9	12.0	12.2	12.3
Consumer prices (12-month percentage variation)	7.7	7.7	7.9	12.5	16.6	16.6	15.1	9.3	5.9	6.1
Average nominal exchange rate (reais per dollar)	2.4	2.5	3.1	3.7	3.5	3.0	2.9	2.9	2.9	3.0
Average real wage (variation from same quarter of preceding year)	-6.1	-1.7	-1.5	3.1	-7.1	-12.9	-11.3	-6.0	-1.8	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	18.9	18.1	18.0	21.2	25.6	26.1	23.2	18.2	16.2	15.8
Lending rate [f]	43.6	42.6	42.9	48.5	52.5	53.0	49.6	44.1	42.2	41.7
Interbank interest rate [g]	19.3	18.4	18.0	20.4	25.7	26.2	23.3	18.3	16.3	15.9
Sovereign bond spread (basis points)	717	1 527	2 396	1 439	1 059	788	696	442	573	658
Stock price index (in dollars, June 1997=100)	42.2	26.0	36.2	37.6	46.4	54.5	73.8	72.8	64.5	46.4
Domestic credit (variation from same quarter of preceding year) [h]	17.6	23.3	18.2	11.9	14.7	10.2	10.7	14.6	10.0	... [i]
Non-performing loans as a percentage of total loans [j]	4.7	4.9	4.4	4.0	4.3	4.5	4.7	4.2	4.1	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figuers.
[a] Preliminary figures. [b] Chain index; base: 1990=100. [c] Quarterly average, weighted by the value of merchandise exports and imports. [d] New methodology used as from the first quarter of 2002. Data not comparable to previous figures. [e] Cumulative monthly rate on certificates of deposit. [f] Average rate on credit operations with free resources, overall total. [g] SELIC (Special System for Settlement and Custody) rate. [h] Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. [i] As of February. [j] Refers to total credit extended by the financial system.

The monetary authorities also tried to bring about a narrowing of interest-rate spreads and to make the financial system more readily accessible to the poorest population groups. Despite the tight money supply, the government sought to encourage the adoption of low-income-friendly credit policies, such as the opening of simplified bank accounts, the allocation of 2% of demand deposits to the extension of microcredit at below-market interest rates and the provision by banks, especially federal banks, of loans repayable by direct payroll deduction, for which both public- and private-sector employees were eligible.

As a result of these initiatives and the more flexible rules on mandatory deposits, household credit, especially consumer loans, began to grow steadily in the second half of the year, while interest rates and banking spreads declined. Business loans contracted sharply between mid-2002 and the third quarter of 2003 owing to a downturn in external resources for export financing. In the last quarter of 2003, however, business loans increased as the volume of external resources rebounded and mandatory deposit rules were relaxed. In the first half of 2004 these loans continued to expand, while a parallel and significant increase was observed in the resources disbursed by the National Bank for Economic and Social Development (BNDES) to finance investments, mainly in machinery and agriculture.

(c) Exchange-rate policy

Exchange-rate policy continued to be governed by the framework that has been in place since the January 1999 devaluation; that is, the real was allowed to float freely. The nominal exchange rate against the dollar appreciated considerably (by 19.4%) in 2003, partially offsetting the drastic depreciation of 2002 (53.5%). This trend continued until April 2004, when the exchange rate began to rise again, albeit more slowly.

In the 12-month period ending in March 2004, Brazil's currency accumulated a real revaluation[3] of 20% against the United States dollar, 8% against the euro, 17% against the yen and 9.4% against the currencies of the other countries members of the Latin American Integration Association (LAIA). In relation to a basket of 13 currencies, the real appreciated by 13.5% in the 12 months ending in March.

(d) Other policies

Starting in January 2003 the new administration took up the debate on the formulation of initiatives to modernize the country's institutions and to create an environment more conducive to investment and innovation. Many of these proposals had already been under consideration in the executive branch or had been submitted to the Congress as draft laws under the previous administration. They included measures to create instruments for stimulating real estate financing, reduce the cost of capital and facilitate the opening of new businesses, establish mechanisms for agricultural insurance and credit, reduce tax distortions, introduce changes in infrastructure regulation, enact a new law on innovation, improve the patent system and support the export sector.

Brazil has stepped up its efforts to gain access to new markets and to strengthen its participation in regional integration arrangements, including MERCOSUR and the Free Trade Area of the Americas. Like other countries of the region, Brazil has benefited from the expansion of trade with Asian nations, especially China and India, and with other emerging economies such as South Africa, which have increased their imports of Brazilian products. It has also consolidated its presence in new markets by putting forward politically significant proposals such as the idea of forming a "group of three" with India and South Africa in order to adopt common positions in multilateral negotiations.

At the international level, the most notable event in the first half of 2004 was the signing of a series of agreements with the Government of the People's Republic of China during the Brazilian President's visit to that country in late May. The commitments undertaken encompass a wide range of activities, from joint ventures to trade liberalization in certain sectors and the possibility of cooperation in the area of energy.

3. The main variables

(a) Economic activity

The Brazilian economy's level of activity is making a recovery in 2004, after the contraction of 2003 and the sluggish growth of previous years. In the first quarter of 2004 GDP was 2.7% higher than it had been in the same period of 2003 and 1.6% higher than in the preceding quarter. This performance in the first few months of 2004 implies that growth could exceed the 3.5% projected at the beginning of the year.

Net exports of goods and services were insufficient to offset the sharp downturn in domestic consumption and investment in 2003, but domestic demand began to recover in the third quarter. The first signs of an upturn were in sales of durable goods, especially automobiles, thanks to an improvement in credit conditions; subsequently, investment began to increase in late 2003 as a result of the greater use of installed capacity and better domestic and external financing conditions. Lastly, a gradual rise in the population's

3 Measured in terms of the wholesale price index.

real income in the first few months of 2004 stimulated the consumption of non-durable goods.

In 2003, as in previous years, GDP growth was highly uneven among the different branches of activity. Agriculture grew the fastest, while manufacturing growth was sluggish and construction shrank by 8.6%. The expansion seen in 2004 has been driven primarily by agriculture and manufacturing, which grew by about 6% in the first four months of the year, and by commerce and transport, which were up by nearly 5% in the first quarter of 2004 in comparison to the year-earlier period.

The faster growth of manufacturing is due to both the recovery in household consumption and the hike in export volumes. The most active branches of industry are those that produce consumer durables and capital goods, in the latter case because of higher demand for investment in machinery and equipment. Activity in other economic sectors has been weaker. Mining and construction have posted negative growth and other services have expanded by no more than 2%.

(b) Prices, wages and employment

Unemployment in the main metropolitan areas increased from 10.5% in December 2002 to about 13% between May and October 2003. Although the rate went down to about 11% at the beginning of 2004, in April and May it returned to around 13%, despite the recovery of GDP growth and the creation of new jobs. The volatility of the unemployment rate essentially reflects changes in the size of the economically active population owing to a fluctuating participation rate. In any case, the employment rate recovered somewhat in 2004. Between January and April 2004 it was 1.8% higher than it had been in the same months of 2003, and data on formal employment point to a pronounced expansion, especially outside the metropolitan areas. In general, the increase in formal employment has extended to all sectors of the economy, but has been highest in industry, where some 189,000 jobs were created between January and April 2004; job creation in the service sector has amounted to 172,000.

In the first quarter of 2004 the population's average real income was 3.8% higher than it had been in December 2003, at which point it was 12.5% lower than it had been at the beginning of that year. The increase was biggest among independent workers and wage-earners in the formal labour market.

Inflation fell systematically starting in early 2003. The rise in commodity prices, adjustments in controlled prices and seasonal increases could temporarily put pressure on price indices in the second half of 2004, but no permanent change is expected in the downward trend of consumer price inflation.

(c) The external sector

Exports were the key factor in stimulating production and stopping the decline in income. In 2003 Brazil racked up its biggest increase in export value since 1988 (21.1%), thanks to a combination of three factors: higher export volume, higher commodity prices and higher demand, both in the Asian countries and in significant Latin American markets for its manufactures (Argentina, Mexico, Chile and Colombia). This export boom has continued in 2004: between January and May exports were up by 24% in comparison to the same period of 2003. Import growth has accelerated in step with the economic recovery, meaning that Brazil's trade surplus in 2004 will probably remain close to its 2003 level.

In value terms, agricultural products were among the main components of total exports in 2003. The grain harvest, consisting largely of soybeans, exceeded 123 million tons; this translated into exports with a value of US$ 21.2 billion, a 25% increase over the previous year's figure. Meat was another export that grew significantly, as external sales reached US$ 4.1 billion, doubling the figure for 2000. The most recent estimates of the grain harvest for 2004 indicate that the preceding year's volumes should be maintained, meaning that any increases in export value will probably be attributable to higher international grain prices.

The increase in merchandise exports has not been confined to commodities or agricultural products. In the first quarter of 2004 the products that had grown the most in value in relation to the same period of 2003 were soybeans and maize (90%), machinery and tractors (80.5%), chemical elements (46.5%), vegetable oils (44.7%), non-ferrous metal products (44.6%), slaughtered animals (43%) and motor vehicles (42.7%). Data for the first four months of 2004 indicate that export prices rose by 8.1% and export volume, by 15.9%. Export volume went up in all categories: capital goods (54.1%), intermediate goods (19%), consumer durables (37.2%) and consumer non-durables (10.8%).

The value of merchandise imports climbed by 2.1% in 2003, after having slumped by 15% in 2002. The increase was due to a 10% expansion in imports of intermediate goods, combined with declines of 6.3% and 10% in imports of consumer and capital goods, respectively. In 2003 capital goods imports reached their lowest value since 1994, reflecting the downturn in investment in the course of the year. In 2004 the economic revival has helped to boost merchandise imports, especially of intermediate goods.

In the first four months of 2004 exports rose by 2.1% in terms of price and 15.8% in terms of volume, with most of the volume increase seen in sales of intermediate goods (22.4%), while fuels and consumer non-durables expanded by 7.7% and 7.6%, respectively. Imports have rebounded from their very low levels of recent years, with upswings in all sectors, particularly mineral extraction (65%), clothing (64%), electronic equipment (53%), chemicals (48%) and chemical elements (45%).

Between January and May 2004 the trade balance continued to show a growing surplus, which reached US$ 11.2 billion in May and accumulated a total of US$ 28 billion over the 12 months ending in May. In the same period the sum of exports and imports exceeded US$ 131 billion, or approximately 25% of GDP.

In the first four months of 2004 the current account balance stood at US$ 948 million (0.5% of GDP), as against a deficit of US$ 830 million in the same period of 2003. This positive balance was basically the result of the bigger trade surplus (US$ 8.1 billion in the period January-April 2004, compared to US$ 5.5 billion in the same months of 2003) and the smaller deficit on the services account (US$ 1.074 billion, as opposed to US$ 1.276 billion in the first quarter of 2003). The income balance deteriorated in the first four months of the year, accumulating a deficit of US$ 7.1 billion, which was bigger than the negative balance of US$ 5.9 billion in the year-earlier period owing to an increase in net payments of profits and dividends. Net interest payments also increased, albeit to a modest extent. The financial account showed a deficit of US$ 2.1 billion in the first four months of 2004 owing to the voluminous capital outflows observed in April (US$ 4.5 billion), which reversed the surplus of US$ 2.4 billion accumulated between January and March. FDI is up slightly from its level in the same period of 2003. Even though medium- and long-term external financing (FDI plus deposits and loans) has fallen short of its level of early 2002, inflows of such resources have increased since mid-2003, rising from about US$ 25 billion to over US$ 35 billion per year.

International reserves totalled US$ 50.5 billion in April 2004, equivalent to 12 months' worth of imports. To put this performance in perspective, it should be recalled that the IMF agreement sets parameters for calculating available net reserves. At the end of April 2004, such reserves amounted to some US$ 22.4 billion.