



PRESIDÊNCIA DA REPÚBLICA
Governo Fernando Henrique Cardoso

BRAZIL 1996: FROM REFORM TO GROWTH

BRASÍLIA
1996

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TABLE OF CONTENTS

Introduction • 5

1. 1995 Economic Results • 8

2. Major Reforms Initiated • 14

3. Social Sector Improvements • 16

4. Stability and Foreign Investment • 20

5. Foreign Trade Expanding • 22

6. Directions for 1996 • 26

7. What Results Do We Expect? • 36

Conclusion • 40

Annex • 41

BRAZIL 1996: FROM REFORM TO GROWTH*

INTRODUCTION

With a land mass of 8.5 million square kilometers, more than 150 million inhabitants and a GDP in excess of US\$ 500 billion, Brazil stands out among the Latin American countries.

BRAZIL AND SELECTED COUNTRIES AREA, POPULATION AND GDP - 1994

Country	Area (thousands of km ²)	Population (millions)	GDP (US\$ billions)
Argentina	2,767	33.9	281.9
BRAZIL	8,512	153.7	528.3
Chile	757	14	52.2
Colombia	1,139	32.8	16.6
Mexico	1,958	86.3	377.1
Peru	1,285	22.1	50.0
Uruguay	177	3.2	15.5
Venezuela	912	19.8	58.4

Source: Central Bank

(*) This brochure was prepared from President Fernando Henrique Cardoso's press conference of January 17, 1996.

With the exception of the 1980s and early 1990s, Brazil's GDP has grown faster than the world average GDP and faster than that of many developed countries.

**ANNUAL GDP GROWTH RATE, 1870-1994
SELECTED COUNTRIES**

Country	Yearly Average(%)
BRAZIL	4.2
Japan	3.8
USA	3.3
Mexico	3.2
Germany	2.8

Source: World Bank

- Brazil's annual average GDP growth during the last 45 years has been greater than the average GDP growth of the rest of Latin America.

**GDP GROWTH RATE, 1950-1994
LATIN AMERICA**

Country	Yearly Average (%) 1950-1994
BRAZIL	5.3
LATIN AMERICA except Brazil*	3.6
TOTAL LATIN AMERICA*	4.1

For 1960-94, including Caribbean.
Source: World Bank

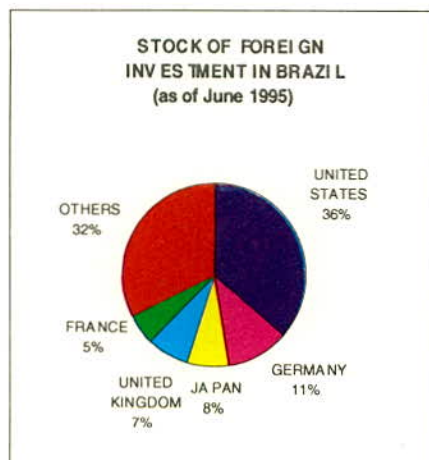
- Brazil has a diversified, integrated economy similar to that of the average developed economy.

GDP - By Kind of Economic Activity - 1991 (%)

	Brazil	Developed Countries	Developing Countries
Agriculture	8.0	2.4	17.0
Industry	24.0	26.2	27.5
Services	62.0	65.3	48.1
Construction	6.0	6.1	7.4

Source: UNCTAD

- It has a solid industrial base with significant foreign capital participation.



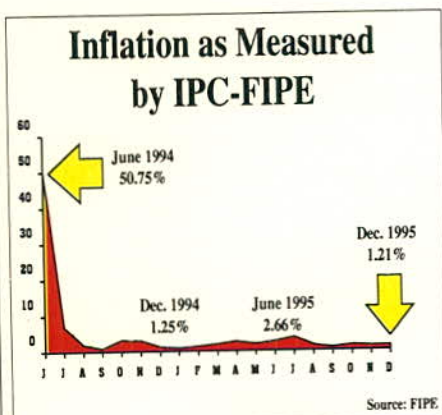
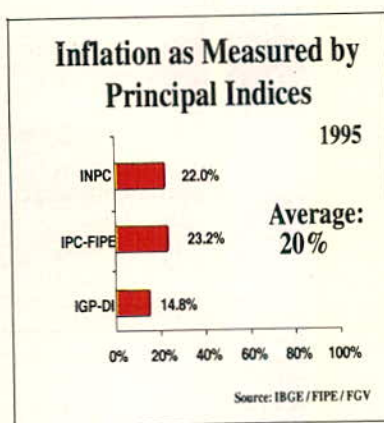
STOCK OF FOREIGN INVESTMENT IN BRAZIL (as of June 1995) (US\$ billions)	
UNITED STATES	35.9
GERMANY	10.9
JAPAN	7.6
UNITED KINGDOM	7.2
FRANCE	5.1
OTHERS	32.1
TOTAL	98.8

Source: Central Bank

1. 1995 ECONOMIC RESULTS

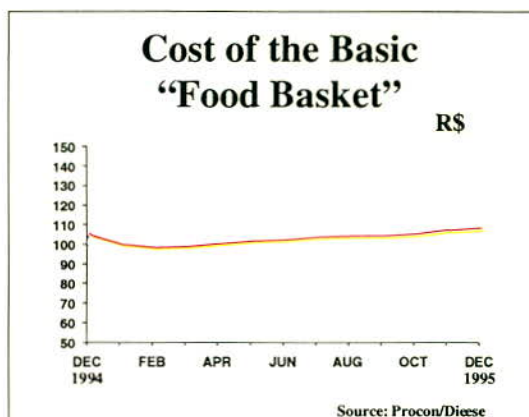
Inflation Down Sharply

Inflation dropped sharply in 1995. Prior to the Real Plan, inflation was around 50% per month. Regardless of the measure used, on average, inflation fell to an annual level of 20% in 1995, the lowest rate since the early 1970s. The 1996 inflation rate should be lower than last year, and the downward trend should continue in 1997.



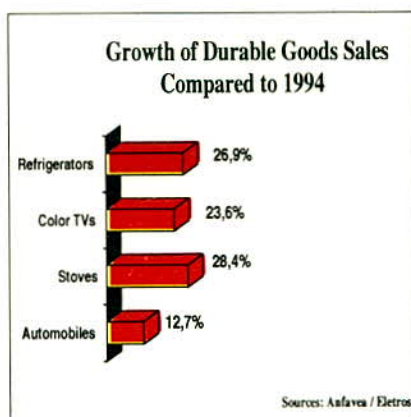
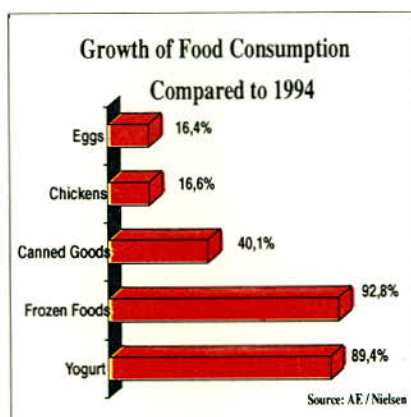
Purchasing Power Up Noticeably

In 1995, the economy grew and purchasing power increased, especially among salaried workers and the lowest income sectors. The cost of the items in the basic "food basket", remained practically unchanged during 1995.



Food consumption grew, in general, by 30%. Egg consumption increased 16%; chickens, 16%; canned goods, 40%; frozen foods, 90%; and yogurt, 89%. These data reveal a growth in protein consumption as Brazilians are eating more and better.

There was an increase also in purchases of durable goods: refrigerators, almost 27%; color TVs, 23%; stoves, 28%; automobiles, 12%.



Per capita food consumption of most of the basic food items has been growing throughout the 1990s.

PER CAPITA FOOD CONSUMPTION - BRAZIL
(kg/person)

	Rice	Beans	Corn	Wheat	Meat
1990	76.0	16.4	171.4	51.2	49.9
1991	76.3	17.9	171.9	51.3	52.1
1992	75.9	18.7	190.8	49.9	51.3
1993	75.5	18.4	203.0	51.8	53.0
1994	75.2	20.8	213.0	49.6	54.3
1995	75.9	21.1	227.8	54.1	59.4

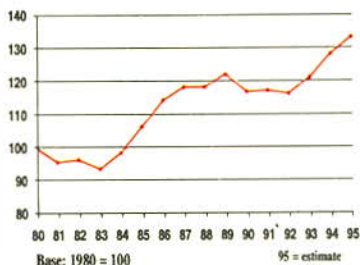
Source: CONAB/IBGE

Economy Expanding

The economy has been growing since 1993. The growth rate was 4.2% in 1993, 5.7% in 1994, and 4.2% in 1995. GDP is expected to rise 4.0% in 1996. After three years, from 1990 to 1992, during which Brazil experienced falling per capita income and annual inflation levels in excess of 1,000%, we should now have six years of growth from 1993 to 1998.

Per capita GDP, which has been growing also, increased 2.54% in 1995 even while the population expanded by about 1.4%.

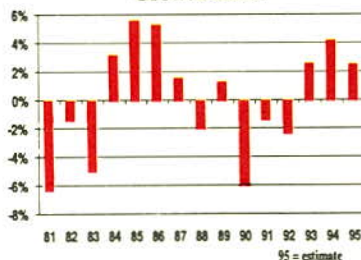
GROSS DOMESTIC PRODUCT (GDP) Brazil



Source: IBGE / IPEA

GDP - Per Capita

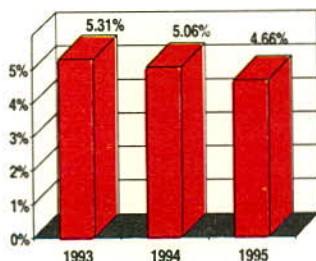
Growth Rates



Source: IBGE

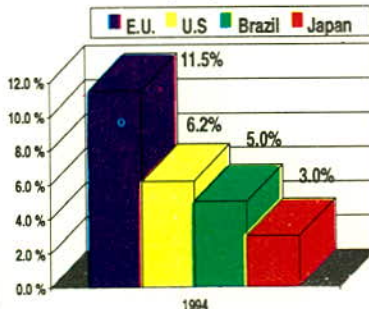
The introduction of the Real initially stimulated the creation of new employment. The overheating of the economy at the beginning of 1995, combined with the Mexican crisis, however, made it necessary to moderate Brazil's growth rate. As a consequence of these contractionary measures, employment declined. Nevertheless, the 1995 unemployment level was lower than that of 1994. In fact, unemployment is at one of the lowest levels in recent Brazilian history and is below that of most developing countries.

UNEMPLOYMENT RATE Brazil



Source: IBGE

Unemployment Rates



Source: OCDE / IBGE

Employment in Brazil should be considered from a national scope, not from a regional or sectoral view. In 1995, employment grew in the services sector and in agriculture; it fell in certain industrial sectors. On average, the rate of unemployment did not increase. Nevertheless, those who lost jobs in one sector did not necessarily find employment in another. Thus, the government is concerned not only about job creation, but also about job retraining. For that reason, in 1995 the National Program for Professional Development (PNQP-Programa Nacional de Qualificação Profissional) spent R\$ 44.4 million to train 222,059 workers, two and a half times the number of workers trained in 1994 (90,000). The goal in 1996 is to train one million workers at a cost of R\$ 290 million from the State Plans (Planos Estaduais) and an additional R\$100 million from the Ministry of Science and Technology (FINEP-Financiadora de Estudos e Projetos).

The following 1995 employment and income data are also worth mentioning:

- Average real wages, per person employed, grew by 13% in 1995, as opposed to 5.4% in 1994 (source: IBGE);
- The minimum wage grew by 54% (from R\$64.79 in July 1994 to R\$100 in May 1995);
- By November 1995, unemployment insurance covered almost 4 million workers, at a cost of R\$1.6 billion; and
- The Indentured and Child Labor Supervision Program (Programa de Fiscalização do Trabalho Escravo e Infantil) was introduced. In 1995, there were 11 investigations, and 849 infractions were discovered. Four companies were indicted, 83 indentured workers were released from their farm obligations, and 12 employment agents were arrested.

International Reserves Growing Rapidly

International reserves totaled US\$38.8 billion in December 1994, an increase of 20.3% over 1993. After declining at the beginning of 1995 due to the Mexican crisis and to the foreign trade deficit during that period, reserves grew to US\$51.8 billion in December 1995, an amount equivalent to 12.3 months of imports. This large increase demonstrates the confidence foreign investors have in the Brazilian economy.

INTERNATIONAL RESERVES IN THE CENTRAL BANK OF BRAZIL

End of period	International Liquidity	
	US\$ (millions)	Equivalence in Months of imports
1980	6,913	—
1981	7,507	—
1982	3,994	—
1983	4,563	3.5
1984	11,995	10.3
1985	10,482	9.6
1986	6,760	5.8
1987	7,458	5.9
1988	9,140	7.5
1989	9,679	6.4
1990	9,973	5.8
1991	9,406	5.4
1992	23,754	13.9
1993	32,211	15.3
1994	38,806	14.1
1995	51,840	12.3

Source: Central Bank

2. MAJOR REFORMS INITIATED

The State began to change its role in 1995, moving from owner to regulator. This change does not mean that the State will sell all of its holdings. But the State, which owned production firms in many economic sectors, is becoming primarily a regulating and monitoring agent. This new status requires a new State structure. Creating this structure requires an educational process of changing people's views and expectations.

Approved Constitutional Amendments

CONSTITUTIONAL AMENDMENT	SUMMARY	PROMULGATION
Termination of Piped Gas Monopoly	Relaxes the state government monopolies, allowing private companies to participate in distribution services	August 15, 1995
Redefinition of Brazilian Firm	With passage of the amendment, a Brazilian firm is defined as being any company established in Brazil, regardless of the source of its capital	August 15, 1995
End of the Petroleum Monopoly	The Government will be able to contract private companies for the exploration and exploitation of petroleum and natural gas deposits.	November 9, 1995
Inland and Coastal Cabotage Shipping	The market reserve for national companies was ended.	August 15, 1995
Liberalization of the Telecommunications Sector	Through concessions, the Government can contract private companies to operate telephone, telegraph and other communications services.	August 15, 1995

Source: Central Bank

The government is accelerating its preparation of draft legislation to implement the constitutional amendments that have already been approved. It is important to point out that many of the approved amendments do not require supplemental legislation. In other cases, the proposed legislation is already in Congress, such as that pertaining to cabotage shipping. For telecommunications, draft legislation is pending in the Senate. Regarding petroleum, proposals are on their way to Congress.

The thrust of all these reforms is to decentralize the Government and to reduce the State's role in the economy. This change in the State's role has been promoted not only to improve economic performance, but especially to facilitate a new social policy.

Pending Constitutional Amendments	Proposed Change
Social Security Reform	Proposes to end: a) full salary payment for retiring civil servants and b) retirement based on time of service
Tax Reform	Combines the excise tax (IPI) with the sales tax (ICMS), and alters the corporate income tax (IRPJ)
Administrative Reform	Ends tenure for civil servants, structures the salaries of the legislature and judiciary, and prohibits strikes by employees in essential services.
Reform of Executive Branch's Structure	Gives to the Executive Branch the right to determine the structure of its ministries and administrative agencies
Fiscal Stabilization Fund	Reduces budgetary transfers to local governments, making the savings available to be programmed with more flexibility

3. SOCIAL SECTOR IMPROVEMENTS

Brazil's new social policy concentrates on the following areas:

- a) more efficient social spending;
- b) emphasis on greater opportunity; and
- c) priority for low-income sector needs: basic education, professional training, sanitation, housing, and reduction of infant mortality.

The first fruits of the new social policy were already evident in 1995, particularly in education and health. The work of the Community Solidarity Program (Programa Comunidade Solidária) stands out. The Community Solidarity Program frees resources and monitors the social impact of ministerial programs. It organizes public support for basic education and health projects in needy localities (basic "scholl kit" distribution to students and teachers, school transportation, school lunches, and combating infant mortality). The most recent project, "Solidarity University" ("Universidade Solidária"), sent one thousand university students into poor communities to give assistance and guidance, and to initiate a process of improving the social situation of these communities.

The following accomplishments in the health area deserve mention:

- Health spending in 1995 doubled compared to 1993, reaching R\$15.8 billion. This level surpassed the government's goal to be spending R\$80 per capita annually on health programs by the end of its four-year term.
- In 1994, the Community Health Agents Program (Programa de Agentes Comunitários de Saúde) had 29,098 agents. In 1995, this number increased to 34,546 agents.

Today the Program exists in 1,008 municipalities, and is a valuable instrument in the fight against infant mortality and in dispensing preventive medicine.

- The number of hospitals that provide special care for children (Hospitais Amigos da Criança) doubled. There were 11 in 1994; 22 in 1995.
- The number of municipalities covered by the Supplemental Food Program (Programa de Suplementação Alimentar) "Milk Is Health" ("Leite é Saúde") grew from 480 in 1994 to 915 in 1995.
- The number of doctors making house calls increased from 328 in 1994 to 851 in 1995; the Family Health Program (Programa de Saúde da Família) now covers 177 municipalities, compared to 65 in 1994.
- The National Immunization Program (Programa Nacional de Imunização) kept infantile paralysis eradicated and contributed to the appreciable decrease of diphtheria, tetanus, whooping cough and measles.
- The campaign against fraud in 1995 reduced hospital internments by 1,815,347 during the period January-October, compared to the same period in 1994; computerized payment controls were introduced and the National Accounting System (Sistema Nacional de Auditoria) was reactivated.

In education, basic instruction stands out as a priority. The proposed constitutional amendment sent to Congress on October 15, 1995, anticipates earmarking close to R\$12 billion per year for basic education. It would:

- Earmark 15% of state and municipal tax receipts for basic education and for creation of a special fund.

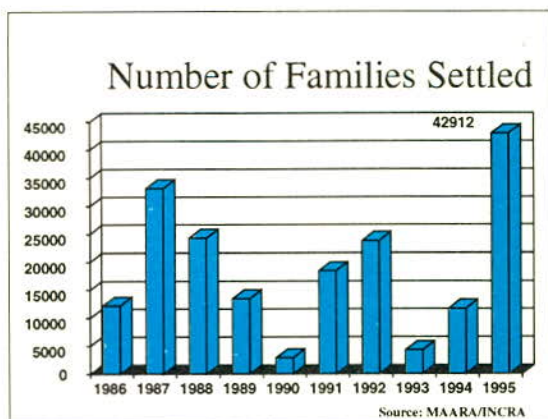
- Redistribute money from this fund among the states and municipalities in accordance with the number of students enrolled in the primary education system.
- Guarantee, at the federal level, an annual per student expenditure of at least R\$300.
- Earmark 60% of those resources to pay professors who are actually teaching.

Another innovation in 1995 was the creation of the School TV (TV Escola), an exclusive satellite channel to train teachers and to update their teaching techniques. Each public school with more than 100 students will receive the resources to purchase a television, a VCR, and a satellite dish to receive the TV School transmissions. In 1995, resources were already made available to 40,000 schools, benefiting more than 23 million students.

The National Educational Book Program (Programa Nacional do Livro Didático) distributed 110 million books to Brazil's 30 million grade school students. The quality of these books was evaluated in order to eliminate elements of discrimination, inadequate curricula, and errors.

In 1995, the National School Lunch Program (Programa Nacional de Alimentação Escolar) spent R\$660 million — more than the total UNESCO worldwide budget (US\$518 million). The Program provided nearly 6 billion lunches to 34 million children. Today, the Program covers all 4,986 of Brazil's municipalities.

Brazil's agrarian reform initiatives settled more than 42,000 families in 1995. The goal for 1996 is to settle as many as 60,000 families.



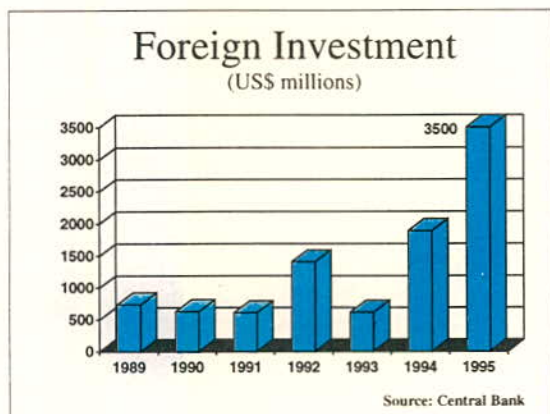
Moreover, the National Program for Strengthening Family Farming (PRONAF — Programa Nacional de Fortalecimento da Agricultura Familiar) will render assistance to the poorest rural families because it is not enough just to settle them on the land. They must also be provided the conditions necessary for survival. Through an agreement with the National Confederation of Agricultural Workers (CONTAG — Confederação Nacional dos Trabalhadores na Agricultura), the government makes resources available to be used directly on the settlements.

Rural financing took a new direction in 1995. The TR (Reference Interest Rate) was eliminated for new loans, and outstanding debts (matured or about to mature) were refinanced for up to ten years with a two-year grace period. This action will benefit nearly 230,000 farmers.

Financing for housing and basic sanitation was resumed after a four-year suspension. The Federal Savings Bank (Caixa Econômica Federal) and the Bank of Brazil are being restructured in order to adapt them to the new social policies, freed from political patronage. In 1996, R\$3.8 billion from the Severance Pay Fund (Fundo de Garantia por Tempo de Serviço) will be set aside to finance housing construction and sanitation projects.

4. STABILITY AND FOREIGN INVESTMENT

The Real brought predictability and stability to the economy; political party alliances provided stability to the administration and support for the reforms. Brazil regained its direction and self-confidence. The public supported the fight against inflation, the opening of the economy, and the reforms. The Government, in turn, reestablished its ability to plan. For example, the 1996-1999 Multi-Year Plan (PPA-Plano Plurianual) indicates how much and in what areas the government plans to invest. Businessmen once again are able to program their investments, and foreign investors are returning to Brazil.



The Central Bank estimates that direct foreign investment totaled US\$3.5 billion in 1995. This figure represents a growth of more than 120% above the average annual investment level for 1990-1994 (US\$1.57 billion). Economic stability, the non-discriminatory treatment of foreign capital, and the transparency and predictability of the national institutions are factors that explain the increase in direct investments in 1995.

Foreign direct investment should grow even more in 1996. In this sense, the increased access to the Brazilian market made possible by the constitutional reforms, by passage of the Public Service Law of Concessions, and by the Executive Branch's authorizing increased foreign ownership of financial institutions will be a key factors.

The consolidation of Mercosul in 1995 is another key element in attracting foreign investment. The January 1, 1995, inauguration of the Customs Union, which encompasses Brazil, Argentina, Paraguay and Uruguay, created a market of 200 million potential consumers with a GDP of some US\$720 billion.

5. FOREIGN TRADE EXPANDING

The total value of Brazilian foreign trade reached the unprecedented level of US\$96.2 billion in 1995. This figure represents an expansion of about 60% over the average annual trade flow during 1990-1994 (US\$60.4 billion).

BRAZILIAN FOREIGN TRADE, 1990-1995
(US\$ billions)

YEAR	EXPORTS	IMPORTS	TOTAL TRADE
1990	31.41	20.66	52.07
1991	31.62	21.04	52.66
1992	35.86	20.55	56.42
1993	38.60	25.48	64.28
1994	43.54	33.10	76.65
1995	46.50	49.70	96.20

Source: SECEX/MICT

Brazilian imports totaled US\$49.70 billion in 1995, an increase of approximately 105% over the 1990-1994 annual average (US\$24.2 billion). The composition of these imports, i.e., the importance of raw-materials and capital goods, reflects Brazil's increasing penetration of the international economy.

COMPOSITION OF IMPORTS IN 1995

CATEGORY	% SHARE
Raw Materials and Intermediate Goods	45.3
Fuels and Lubricants	10.4
Capital Goods	24.2
Consumer Goods	20.0

The significant value of imports, which in 1995 totaled US\$50 billion, reflects to a great extent the combination of two factors: 1) economic stabilization increased domestic demand by restoring the currency's purchasing power; and 2) the consolidation of the economic opening, with the January 1, 1995, implementation of the Mercosul Common External Tariff, established a new standard of tariff protection.

AVERAGE IMPORT TARIFF (%)
1990-95

1990	32.2
1991	25.3
1992	16.5
1993	14.0
1994	14.0
1995	12.6

Exports in 1995 totaled US\$46.5 billion, another historic record. The composition of these exports, i.e., the large importance of manufactured products (74.64%), reflects the diversification of the Brazilian economic structure.

COMPOSITION OF BRAZILIAN EXPORTS IN 1995

CATEGORY	% SHARE
Basic Products	23.59
Industrial Products (Semimanufactures) (Manufactures)	74.64 (19.66) (54.98)
Others	1.77

The wide range of exports and the balanced distribution of the products among the most affluent world markets provide stability and predictability to Brazilian foreign trade and show Brazil to be a true global trader.

PRINCIPAL BRAZILIAN EXPORT MARKETS IN 1995

FOREIGN MARKET	% SHARE
European Union	26.99
ALADI (MERCOSUL)	21.45 (13.23)
United States	18.67
Asia	17.61
Others	15.28

The Brazilian government recognizes the important role exports play in promoting economic growth and job creation. Thus, priority is being given to developing the new export centers; to perfecting the Export Financing Program (Programa de Financiamento às Exportações); to implementing a market based system of Export Credit Insurance (Seguro de Crédito às Exportações); to eliminating the impact of indirect taxes on exports; and to reducing the so-called "Brazil Cost," which is associated with the peculiar disadvantages caused by policy distortions or by government or market failures.

In 1995, Brazil, Argentina, Uruguay and Paraguay completed an important phase of the Mercosul regional integration process when they inaugurated the Customs Union. This phase established a set of characteristics, namely: free trade within the area; the Common External Tariff; elimination of non-tariff barriers; the formation of the block's institutional structure; and the creation of an international juridical identity.

The dynamism of intra-Mercosul trade is shown in the following data: total Brazilian trade with the other Mercosul countries grew from US\$3.64 billion in 1990 (the year prior to the signing of the Treaty of Asunción) to US\$12.97 billion in 1995 (the first year of the Customs Union's operations) – an increase of 256%. Another aspect of this dynamism is the growing importance of intra-industry trade, which demonstrates the greater use of economies of scale permitted by an expanded regional market.

**BRAZILIAN TRADE WITH THE MERCOSUL COUNTRIES,
1990-1995**

(US\$ billions)

YEAR	EXPORTS	IMPORTS	TOTAL TRADE
1990	1.32	2.32	3.64
1991	2.31	2.27	4.58
1992	4.10	2.25	6.35
1993	5.40	3.36	8.76
1994	5.92	4.02	9.94
1995	6.15	6.82	12.97

Mercosul's external relations are founded on the concept of "open regionalism" ("Regionalismo Aberto"). Since the establishment of the Customs Union on January 1, 1995, Mercosul has been negotiating free trade agreements with other South American countries. It is also working to establish the American Free Trade Area (ALCA —Área de Livre Comércio das Américas). Moreover, in December 1995, Mercosul and the European Union signed an interregional cooperation agreement that has important significance for economic and political relations between the two blocks.

6. DIRECTIONS FOR 1996

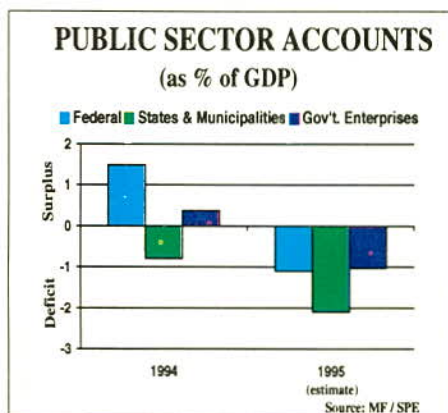
■ *What Do We Want for 1996?*

- To consolidate the Real
- To invest in order to grow
- To achieve a better income distribution

■ *What Do We Need to Do?*

- To balance the public accounts
- To reduce production costs (see annex)
- To reform the State administration

Balancing the public accounts is one of the government's priorities for 1996. The fiscal imbalance in 1995 produced an over-all deficit equal to 4.2% of GDP, as opposed to a 1.1% surplus in 1994. The federal accounts alone moved from a surplus of 1.48% of GDP to a deficit of 1.1%. In 1995, the deficit of the states and municipalities was practically double the federal deficit, going from 0.79% of GDP in 1994 to 2.10% in 1995. In most states, personnel expenditures accounted for more than 80% of receipts.



Why do we need State reform and how does it relate to the fiscal imbalance?

The need to balance the public accounts is one reason for reforming the State. In 1995, there was a public deficit in spite of a 17% increase in government revenues. At the same time, the total tax burden reached the historic level of 30% of GDP, practically exhausting the country's capacity to tax society further. Thus, the deficit problem must be addressed from the spending side while continuing efforts to combat fraud and corruption. These efforts depend to a large extent on the reforms proposed by the government.

TAX BURDEN

(% of current GDP)

YEAR	FED	STATE	MUNIC	TOTAL
1986	16.7	5.1	0.6	22.4
1987	15.3	4.4	0.6	20.3
1988	14.9	4.5	0.6	20.0
1989	14.7	6.9	0.6	22.2
1990	19.9	8.8	0.8	29.5
1991	16.1	7.0	0.6	23.7
1992	17.0	7.2	1.0	25.2
1993	17.6	6.3	0.9	24.8
1994	19.5	7.5	1.3	28.3
1995	20.7	7.8	1.6	30.1

Source: Ministry of Finance

What Causes the Deficit?

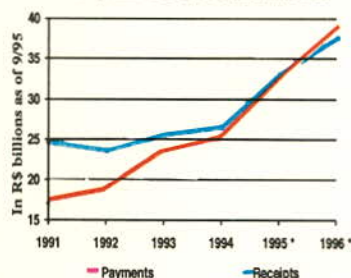
In spite of the real increase in government receipts last year, there was an imbalance in the public accounts. In 1995, we reached the point at which the Social Security System's benefit payments exceeded its revenue collections.

SOURCES OF THE DEFICIT (R\$ billions - Sept. 1995 prices)

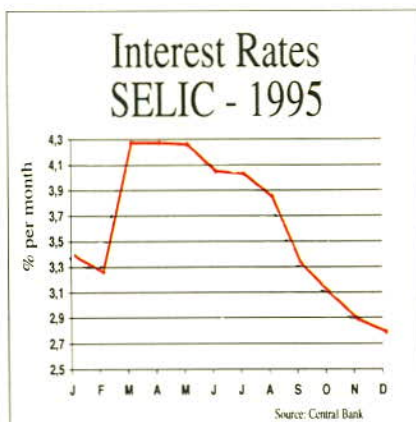
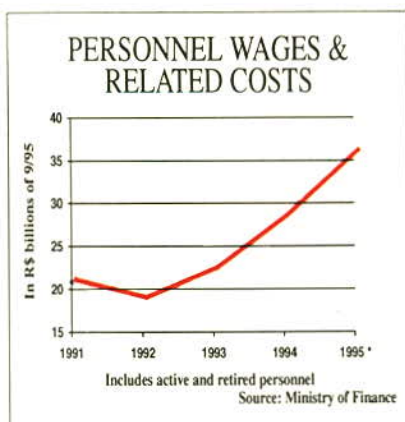
YEAR	PERSONNEL COSTS	SOCIAL SECURITY BENEFITS	INTEREST PAYMENTS
1991	20.9	17.1	2.9
1992	18.8	18.6	10.9
1993	22.3	23.5	7.4
1994	28.4	25.4	8.5
1995	36.0	32.9	11.9

Source: STN/MF - MPAS

SOCIAL SECURITY SYSTEM RECEIPTS & PAYMENTS



Source: MF / SPE



Personnel-related expenditures increased from R\$28 billion in 1994 to R\$36 billion in 1995. Social Security expenditures grew from R\$25 billion to R\$33 billion. Interest payments rose from R\$8.5 billion to R\$12 billion. Social Security and personnel expenditures are, therefore, the two items exerting the most pressure on the federal accounts. Thus, the solution for these public account imbalances lies in the approval of the administrative and Social Security reforms. At the same time, the trend toward lower interest rates, which should continue in 1996, will relieve some of the pressure on the federal accounts.

Administrative Reform

The administrative reform will create the conditions necessary to reduce personnel expenditures, to improve the salaries of government employees and to provide better services to the population. The principal points of administrative reform are:

- To modify the tenure regulations for civil servants;
- To require legislation for salary increases to employees in the three branches of government;

- To grant more flexibility for managing foundations and independent agencies;
- To require performance evaluations of government agencies and employees;
- To implement new management methods; and
- To improve the image of public servants.

Social Security Reform

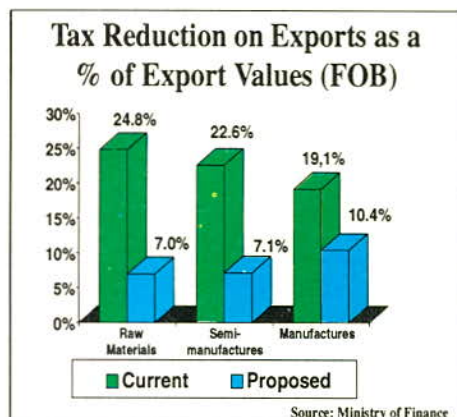
The Social Security reform seeks to reestablish a balance between contributions and benefits, and to correct various systemic privileges and injustices, such as retiring at a rather early age, accumulating rights to several retirements, or receiving very high retirement annuity payments. The new Social Security model would stimulate the creation of supplemental retirement insurance programs, sparking a healthy increase in savings and investments. Two basic elements of the new retirement insurance would be: tying retirement to the length of time contributions are made, and establishing a minimum retirement age.

Tax Reform

The tax reform is a fundamental measure in the reduction of production costs. Its objectives are to reduce the tax impact:

- a) on investment by granting exemptions from the sales tax (ICMS) for new investment; by waiving the industrial production tax (IPI) for the purchase of equipment, machinery and selected instruments; by reducing the weight of the social integration fund tax (PIS) on investment loans; by collecting no import duties for purchases of machinery and equipment until December 1996; and by giving corporate loans a 50% reduction in the financial operations tax (IOF);

- b) on agricultural production by removing the sales tax on agricultural exports and on various products consumed domestically, including items in the basic "food basket;"
- c) on exports by reducing total taxes, and especially for primary products as indicated in the following graph.



Continuing the Privatization Program

Simultaneously with the constitutional reforms, the government should accelerate privatizations. The steel and petrochemical sectors have already been privatized. Now, a new phase is beginning in which an attempt will be made to create appropriate conditions for investment and expansion in such public services as electrical energy, water and gas.

NATIONAL PRIVATIZATION PROGRAM

Sector/Company	Current Status
<i>Chemical/Petrochemical</i>	
EDN	Auction suspended by courts
Polipropileno	Under review
Deten	Auction pending
Metanor	Under review
Nitroclor	Suspended
Polibrasil	Under review
Koppol	Under review
<i>Electrical Sector</i>	
Light	Under review
Eletróbrás	
Eletrosul	Companies are being hired to estimate the market value of these firms
Chesf	
Furnas	
<i>Others</i>	
Lloyd Brasileiro	Sold
RFFSA	Under review
Agef	Under review
Banco Meridional	Under review
Valec	
CVRD	Companies are being hired to estimate the market value of these firms.

Source: Central Bank

NATIONAL PRIVATIZATION PROGRAM
Total Value of Company Shares Sold¹

(US\$ millions)²

Company	Auction Date³	Value of Sale	Debt Transferred
1. Usiminas	10/24/91	1,941.2	369.1
2. Celma	11/01/91	91.1	4.5
3. Mafersa	11/11/91	48.8	0.5
4. Cosinor	11/14/91	15.0	0.0
5. SNBP	01/14/92	12.0	0.0
6. Indag	01/23/92	6.8	0.0
7. Piratini	01/17/92	106.7	2.4
8. Petroflex	4/10/92	234.1	20.7
9. Copesul	05/15/92	861.5	9.2
10. Alcalis ⁴	07/15/92	81.4	5.7
11. CST	07/16/92	353.6	483.6
12. Nitriflex	08/06/92	26.2	9.2
13. Fosfertil	08/12/92	182.0	44.0
14. Polisul	09/11/92	56.8	131.0
15. PPH	09/29/92	59.4	35.0
16. Goiasfertil	12/08/92	13.1	9.3
17. Acesita	10/23/92	465.3	232.2
18. CBE	12/03/92	10.9	0.0
19. Poliolefinas	03/19/93	87.1	0.0
20. CSN	04/02/93	1,495.3	532.9
21. Ultrafertil	06/24/93	205.6	20.2
22. Cosipa	08/20/93	585.7	884.2

Company	Auction Date ³	Value of Sale	Debt Transferred
23. Açominas	09/10/93	598.5	121.9
24. Oxiteno	09/15/93	53.9	2.0
25. PQU	01/24/94	287.5	40.9
26. Arafertil	04/15/94	10.8	1.8
27. Caraíba	07/28/94	5.8	0.0
28. Acrinor	08/12/94	12.1	0.7
29. Coperbo	08/16/94	25.9	0.0
30. Polialden	08/17/94	16.7	1.5
31. Ciquine	08/17/94	23.7	6.3
32. Politenio	08/18/94	44.9	28.4
33. Embraer	12/08/94	192.2	263.4
34. Escelsa*	07/11/95	399.8	2.0
35. Copene*	08.16.95	270.4	342.6
36. CPC*	09/29/95	99.7	27.4
37. Salgema*	10/05/95	139.2	32.0
38. CQR*	10/05/95	1.6	0.0
39. CBP*	12/05/95	0.0	NA
40. Nitrocarbano*	12/05/95	29.6	NA
41. Pronor*	12/05/95	63.5	NA

Source: BNDES

(*) In process

(1) Corresponds to the auctions of ordinary and preferred shares, including those sold to employees. (Sales of government minority holdings are not included).

(2) Values were converted at the commercial dollar selling rate on the date of the sale payment.

(3) Refers to the principal auction.

(4) Includes US\$ 32.4 million in financing (41% of the auction value).

NATIONAL PRIVATIZATION PROGRAM
Total Value of Company Shares Sold¹

(US\$ millions*)

Year	Number of Companies	Value of Sale	Debt Transferred
1991	4	1,613.6	374.1
1992	14	2,401.2	982.3
1993	6	2,620.5	1,561.2
1994	9	1,576.4	348.8
1995	8	1,003.8	404.4
Total	41	9,215.5	3,670.4

Source: BNDES

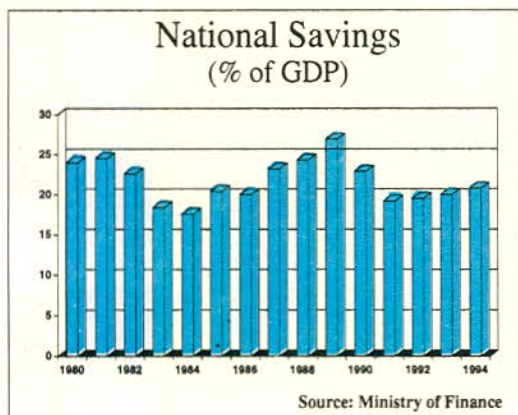
(*) Values were converted at the commercial dollar selling rate on the date of the sale payment.

7. WHAT RESULTS DO WE EXPECT?

- Sustained growth
- Creation of employment
- Expansion of social expenditures

Sustained Growth

The economic stability achieved in 1995 strengthens the confidence that Brazil will initiate a new cycle of sustained growth, with greater savings and an improvement in income distribution. The target is to increase global savings from the current level of 17.5% of GDP to 24%, the rate reached during the 1970's. With that in mind, the Executive will soon send Congress a bill designed to stimulate savings.



It is expected that investment will continue to expand, in the private and government sectors, and through the external accounts. Reducing the "Brazil cost" will be a priority in 1996. Foreign investments, which reached US\$ 3.5 billion in 1995, according to Central Bank estimates, should reach a higher level in 1996. Public works projects will be reinitiated, stimulating the private sector through privatizations, public service concessions and joint public/private sector projects. The Multi-year Plan 1996-1999 (PPA) will mobilize significant resources for infrastructure and social development. Of those resources, 75% will be destined for the social area.

Multi-Year Plan 1996-1999

Federal Government Expenditures

(R\$ millions)

	Investments	Maintenance	Total	%
Infrastructure	47.552	186	47.738	12.3
Agriculture	7.289	6.619	13.908	3.6
Science & Technology	2.630	3.847	6.477	1.7
Social Programs	23.064	268.594	291.658	75.1
Others	15.811	12.577	28.388	7.3
Total	96.346	291.823	388.169	100.0

Source: PPA

Creation of Employment

During 1996, the government will face unemployment by using structural policy measures (economic stabilization, increased savings and investment, and interest rate reduction). In addition, it will implement more specific incentives, such as:

- A reduction of wage-related taxes;
- Support to rural workers through PRONAF;

- Help for small and medium companies which currently account for 43% of the production and 59% of the employment in the country; in 1996, the Ministry of Industry, Commerce and Tourism will implement policies which will decentralize geographically its various programs to assist companies;
- Promotion of artisan skills; and
- Preparation and retraining of workers.

Expansion of Social Expenditures

Besides creating jobs and establishing economic conditions for better wages, the government intends to implement additional new policies and programs that will expand opportunities. The priorities will be:

- a) Agrarian reform — the resources necessary to settle approximately 60,000 families have already been earmarked; moreover, the legislative changes proposed by the government will permit, if approved, the acceleration of the expropriation process.
- b) Education — 1996 will be the year of education; the various projects initiated in 1995 will be expanded.
- c) Health — the fight against fraud will be intensified; similarly, the campaign against infant mortality and the effort to improve services in the clinics and hospitals will be priorities.
- d) Sanitation and housing — R\$ 3.8 billion have been earmarked for this sector.

On September 7, 1995, the President initiated a broad national campaign in defense of human rights. Among the priority themes are: the fight against juvenile prostitution; the elimination of indentured and forced labor, both for children and adults; an improvement in the appreciation of the black community; efforts regarding the political leaders that have disappeared; and the advancement of women's rights. The National Plan for Human Rights will be adopted in 1996.

CONCLUSION

The results achieved in 1995 and the proposals for 1996 demonstrate the existence of a new national vision. This vision signifies a transformation, one that is desired by the society, promoted by the President and favored by Congress.

The foundation for this transformation of Brazil was set in 1995: the economic stabilization was consolidated, the reform of the Constitution and of the State was begun, and social policies were reshaped.

In 1996, the country should begin to see more clearly the results of this transformation. Brazil will turn a new page in its history, leaving behind inflation, protectionism, inefficiency, and disregard for its least favored citizens. Brazil will be stable, more efficient and competitive, and equipped with a public sector capable of providing better services and of promoting greater opportunities designed to reduce social and income imbalances.

ANNEX

REDUCTION OF THE "BRAZIL COST"

Several structural reforms were initiated in 1995. These reforms are designed to increase the efficiency of Brazil's economy, eliminating distortions that diminish the country's competitiveness. The elimination of these distortions, identified as the "Brazil Cost," has been one of the government's priority objectives. What has been done and what has yet to be done?

I) Reducing Taxes

The government exempted inputs for exports from two taxes (PIS-COFINS) and reduced corporate income tax rates. With these measures, the estimated tax burden on exports of manufactured products fell from 18.6% to 12.9%, on semi-manufactured goods from 22.4% to 17.1%, and on primary products from 24.6% to 23.1%. Pending constitutional reforms would reduce the sales tax (ICMS) on exports of primary goods, semi-manufactures and manufactures to 6.8%, 6.9%, and 10.1%, respectively. Once the constitutional amendment is promulgated, the ICMS tax reduction on primary goods and semi-manufactures can be quickly implemented.

ESTIMATED TAX BURDEN ON EXPORTS

	Previous Situation	After the Tax Reduction	With the Constitutional Reform
Manufactures	18.6%	12.9%	10.1%
Semi-manufactures	22.4%	17.1%	6.9%
Raw Materials	24.6%	23.1%	6.8%

II) Lowering Labor Costs

Excessive labor related costs and outdated legal requirements discourage the creation of employment and/or stimulate an expansion of the informal economy. In Brazil, the non-salary costs of labor are equal to 81.9% of the wage bill. By contrast, these costs are equal to 60% of the wage bill in Germany, 58.8% in England, and 51% in Holland. The Government plans to relax the requirements generating these labor-related costs, encouraging negotiations between capital and labor.

NON-WAGE LABOR COSTS AS A % OF WAGE COSTS

Brazil	81.9%
Germany	60%
England	58.8%
Holland	51%

In addition, some measures are already bearing fruit, such as the executive decree concerning labor's participation in corporate profits and the intensification of labor training. The National Plan for Professional Development trained approximately 210,000 workers in 1995, compared to only 90,000 in 1994, and plans to enroll some 1,000,000 in 1996.

III) Improving Infrastructure

The steps taken thus far have produced the following progress:

- An easing of the government monopoly in the infrastructure;
- Privatization of Escelsa (The Electricity Company of Espírito Santo), inclusion of Eletrobrás in the National Privatization Plan, setting an April date for the auction of Light, and providing federal support for state privatization programs, notably the plan to sell CERJ — Centrais Elétricas do Rio de Janeiro (The Electricity Company of Rio de Janeiro);
- Definition of conditions for the sale of three segments of the railroad system with the first auction set for March; approval of the Concessions Law, permitting initiation of bidding for four electrical generating installations in 1996 and eleven more in 1997, a total potential of 5.1 thousand MW;
- Reactivation of construction on 22 other electrical generating plants, including Itá and Serra da Mesa, involving an increase of 9.3 thousand MW of electrical energy;
- The concession of 4 federal highways, including the Rio de Janeiro-São Paulo highway (Dutra), within the Concession Program of Federal Highways;
- Creation of the Executive Group for the Modernization of Ports. This group has rationalized the management of port workers. It also accelerated the grant of private concessions for ports such as Cosipa and Praia Mole and has improved procedures at the customs service. The actions already underway should reduce port costs approximately 20% by the end of the year. Moreover, priority has been given to the port of Sepetiba, with the mineral pier scheduled to become operational this year under private management.

IV) Making the Financial System Responsive

The high level of interest rates and the small amount of funds available for investment and technological development are two sides of the same coin, creating a tremendous dependency on public resources. The government has striven:

- To reduce gradually the interest rates and progressively to end the compulsory deposit requirements. The basic interest rate in the economy went from an average of 4.4% per month in the second half of 1994 to 2.5% in January.
- To eliminate the restrictions on foreign financial capital.
- To revise the Export Financing Program - PROEX which, in addition to helping to match foreign interest rates for exporters, now finances durable goods exports and, this year, will have twice as many resources as in 1995.
- To increase the volume of BNDES investment loans by 105% in the first eleven months of 1995 compared to the same period in 1994.
- To replace the Reference Interest Rate (TR) with the Long Term Investment Rate (TJLP) for underwriting industrial investments. The TR in April reached 50.6% p.a., whereas the TJLP was 21.9% p.a., which implied a savings of 23.5% p.a. for the borrower.
- To set the interest rate for agricultural credits at 16% and to create credit lines for the small and medium businesses within the Program to Generate Employment and Income — PROGER.
- To reduce the Tax on Financial Operations (IOF) and the incidence of the PIS on productive investment operations.
- To institute soon the Fund for Programmed Individual Retirements whose resources can be channeled into investment.

V) Deregulation

The government altered much of the price structure for the distribution of gasoline and alcohol. It also reduced the subsidies that were distorting electrical energy and telecommunications prices and inflating public sector charges to the productive sector. These steps permitted the public sector tariffs affecting the "Brazil Cost" to be raised less than the inflation rate without resorting to artificial measures or increasing the public deficit. Thus, the average price of fuels, electrical energy, and business communications declined in real value by, respectively, 12.8%, 6.8%, and 17.7% since the introduction of the Real.

PRESIDENCY OF THE REPUBLIC
Secretary of Social Communication

Institutional Support from the
Ministry of Finance
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2. DISCURSO DE POSSE
3. MENSAGEM AO CONGRESSO NACIONAL
4. POLÍTICA EXTERNA
5. A NOVA FASE DA PRIVATIZAÇÃO
6. CONCESSÕES DE SERVIÇOS PÚBLICOS NO BRASIL
7. FATOS E DADOS SOBRE O BRASIL DO REAL
8. REAL UM NOVO COMEÇO
9. PROPOSTA DE REFORMA ADMINISTRATIVA
10. PROPOSTA DE REFORMA TRIBUTÁRIA
11. DIREITOS HUMANOS: NOVO NOME DA LIBERDADE E DA DEMOCRÁCIA
12. PLANO DIRETOR DA REFORMA DO APARELHO DO ESTADO
13. MENSAGEM AO CONGRESSO NACIONAL

IN ENGLISH

1. PRIVATIZATION ENTERS A NEW PHASE
2. PUBLIC SERVICE CONCESSIONS IN BRAZIL
3. THE RESULTS OF THE REAL PLAN
4. THE TELECOMMUNICATION SECTOR IN BRAZIL

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