



PRESIDÊNCIA DA REPÚBLICA



# FIVE YEARS OF THE REAL PLAN

*Stability and Development*

BRASÍLIA  
1999

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STABILITY AND DEVELOPMENT**

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Brasil. Presidente (F.H. Cardoso)

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## INTRODUCTION

Five years have elapsed since the introduction of the Real Plan. Brazil started to change. There have been significant economic and social accomplishments in this short period.

The Real Plan has been a great watershed for our economy. Before its introduction, the country suffered from recession, inflation and income concentration. Since the beginning of the Real Plan we have had economic stabilization, growth and income distribution.

We have achieved stabilization, which has resulted in greater income distribution, where as previously income was more concentrated due to rampant inflation. In the 12 months prior to the Real Plan's implementation, inflation reached 5,200%. In contrast, in the 12 months ending in May 1999, inflation was close to 3.2%, if we take into consideration the national index for consumer prices. There was even a deflation of 0.24% during this same period in São Paulo. The persistent drop in inflation over the last five years was briefly interrupted, in the first quarter of 1999, due to the shift in exchange policies. Nevertheless, introduction of a free exchange rate system did not cause a continuous and generalized increase in prices.

The Real Plan has fostered stabilization with growth. We have had six consecutive years of real growth in GDP, a growth rate that has not been seen since the end of the seventies. Between 1994 and 1998, Brazil's GDP grew at an average annual rate of 3.3%. In contrast, the rate was close to zero (0.3%) during the four years preceding the Real Plan.

We have managed to demonstrate that good macroeconomic management is not incompatible with social improvement. More than ten million Brazilians have been brought into the consumer marketplace as a result of the price stabilization process.

Contrary to what many believed, an important reason for the economic growth was the increase in workers' real average income. Their earnings grew 26% with the implementation of the Real Plan, taking into consideration the income averages during the periods before and after the plan was introduced.



Furthermore, there has been a very significant increase in the purchasing power of the minimum wage. In 1994, the minimum wage bought little more than half of the basic market basket, while in May 1999 it could buy slightly more than the basic market basket. Since the beginning of the Real Plan, the minimum wage has increased approximately 110%, while the basic market basket has increased in price by only 14%. That has been reflected in an improvement in wage earners' standards of living.

Despite these economic and social successes, we continue to face major challenges. Greater efforts are still necessary in order to attain fiscal balance, so as to guarantee sustained economic growth, significant reductions in the unemployment rate and also increase the efficiency of public spending, mainly in the social area, thus producing greater benefits for the population. The path we have followed over the last five years, as well as some of our more recent accomplishments, demonstrate that we are heading in the right direction.

The unemployment rate, after having risen from 5.6% in 1997 to 7.6% in 1998, barely increased from early 1998 to May 1999, when the rate was 7.7%.

The agricultural sector is expected to produce record grain crops during 1999, in the range of 81.4 million tons. The privatization program, which already has generated revenues of approximately US\$ 70 billion, continues to move forward successfully, producing concrete benefits for the population. The price of a telephone line, for example, dropped from around R\$1,100.00 in August 1994 to R\$ 55.00 in June 1999. Brazilian petroleum production, which already has surpassed the rate of 1 million barrels a day, is expected to increase even more with the end of the petroleum monopoly in June 1999.

In the past five years, we have had to face an adverse international situation, with the emergence of three major external economic crises (Mexican, Asian and Russian). The most evident consequences of these crises were the increases in unemployment rates and a rise in the fiscal deficit.

In January 1999 Brazil experienced a period of serious economic difficulties, with a significant reduction in foreign currency reserves, a

sudden and strong increase in the price of the dollar and steep increases in wholesale prices. This situation of serious difficulties was overcome more rapidly and strongly than had been expected by either international investors or ourselves, regaining the confidence and trust of our principal economic partners.

Compared to other countries, our economy has shown a greater capacity to recover when faced with external shocks. This has been due to a variety of factors. Our financial system has undergone an important restructuring program. We have recently had a good performance in the fiscal area, with significant primary surpluses. Inflation remained low after the end of the phase of excessive devaluation that occurred during the shift in exchange policies. Thus we were able to promote a gradual and consistent fall in interest rates. Our firm and transparent decisions, which have demonstrated respect for contracts and institutions, have led the private sector to follow through on the ongoing restructuring of productive capacity. This process of change—stimulated by stabilization, trade liberalization and a renewal of long-term planning—has generated significant productivity gains.

Throughout the year 2000 new currency safeguard mechanisms will be implemented. The structure of economic policies will be based on the inflation targets system, to be monitored by the Brazilian Central Bank. Such policy guidance will provide a new institutional configuration for the preparation of monetary policies, consolidating its primary goal of safeguarding the stability of the Real—a value that Brazilian society has learned to appreciate and wishes to preserve.

The maintenance of a cautious economic policy aimed at economic growth consistent with inflation targets, as well as steady fiscal policies to keep the public debt under control and guarantee responsible fiscal management, will pave the way for the reduction of interest rates, with the goal of creating a favorable environment for productive investments.

It is also essential not to overlook the challenge involved in the implementation of a new management model for the public sector. This new model will simultaneously make it possible to reduce spending and to allocate more productively the funds spent by public entities. Thus we



have facilitated the financing of strategic investments and a rise in social spending. It is necessary to continue establishing comprehensive social programs that are more capable of directly meeting the needs of the population as a whole and, above all, the poorest.

Moving toward this new model, the federal government is preparing to present to the congress and society its Multi-Year Plan (Plano Plurianual - PPA) for the 2000-2003 period. The structure of the new PPA is based on the successful experience of the "Brazil in Action Program." This program introduced an innovative management model for the Brazilian public sector, focused on achieving concrete results, with programs entirely dedicated to society and subject to continuous assessment, characterized by a greater transparency and efficiency by means of making the managers accountable for costs and results.

Implicit in the new public sector management model are greater incentives for the formation of partnerships among government, private enterprise and the organizations of civil society. Such partnerships perform roles of increasing importance in overcoming the challenges in various areas: economic infrastructure, social development, regional imbalances, the environment, and science and technology.

The consolidation of both the new management model and the structural changes brought about over the last couple of years, as well as the advances in the financing of social security and in the establishment of a tax structure that is fairer and more favorable to competitiveness, will clearly demonstrate that Brazil benefits from an increasingly mature institutional environment.

Five Years of the Real Plan have produced a series of concrete successes, including the consolidation of economic stabilization with a renewal of development and promotion of better income distribution. We have already done a great deal, but there is still much more to accomplish. We have prepared the ground; we have planted the seeds; the tree is already producing fruit. From now on, our task will be twofold: to safeguard our achievements and to move forward to new triumphs.

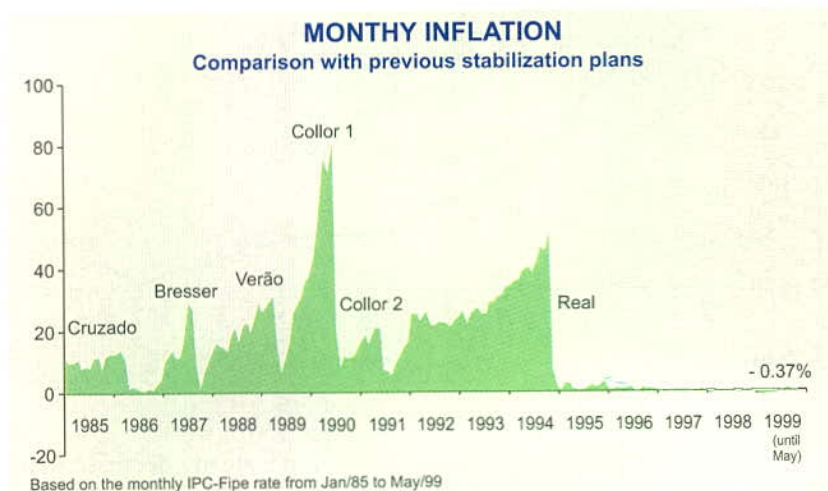
**FERNANDO HENRIQUE CARDOSO**



# **THE ECONOMY**



# INFLATION



## Before the Real Plan

The cumulative inflation in the four years preceding the Real Plan was approximately 3,500,000%, as measured by the IPC-FIPE consumer price index calculated by the FIPE economic research institute (*Fundação Instituto de Pesquisa Econômica*).

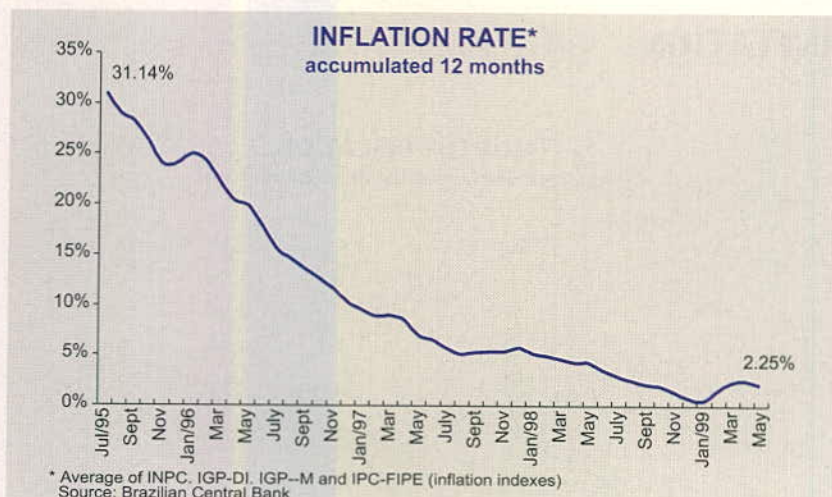
In the 12-month period prior to implementation of the Real Plan, the annual inflation recorded by FIPE reached 5,200%.

## Under the Real Plan

In the 12-month period ending in May 1999, there was a deflation of 0.24%, which means a decrease in average prices.

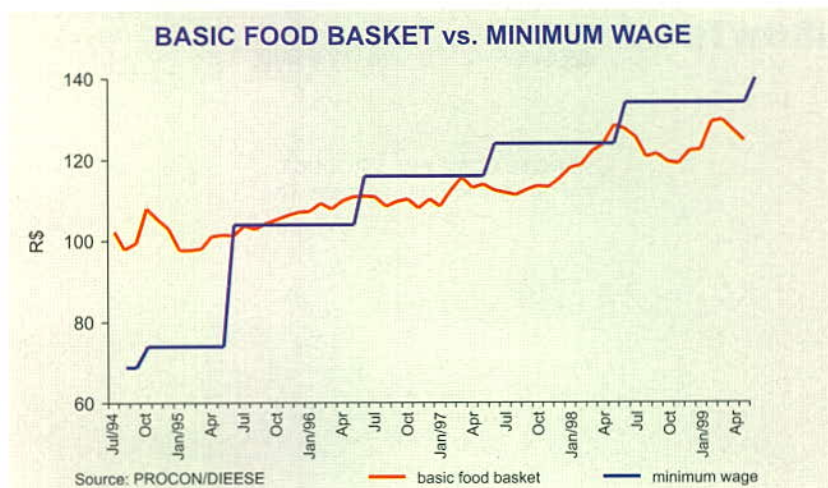
According to estimates made by private consulting firms and by the financial markets, inflation is expected to reach about 7% in 1999, reflecting the steep rise in prices that took place in the first quarter due to the shift in exchange policies and, above all, of the unusually large currency devaluation that occurred in January and February of 1999.





During the past five years there has been a steady decrease in inflation rates, with a brief interruption in the first quarter of 1999, which was caused by the shift in exchange policies. The move to a free exchange rate system led to a realignment of relative prices. Nevertheless, this did not cause a continuous and overall increase in prices.

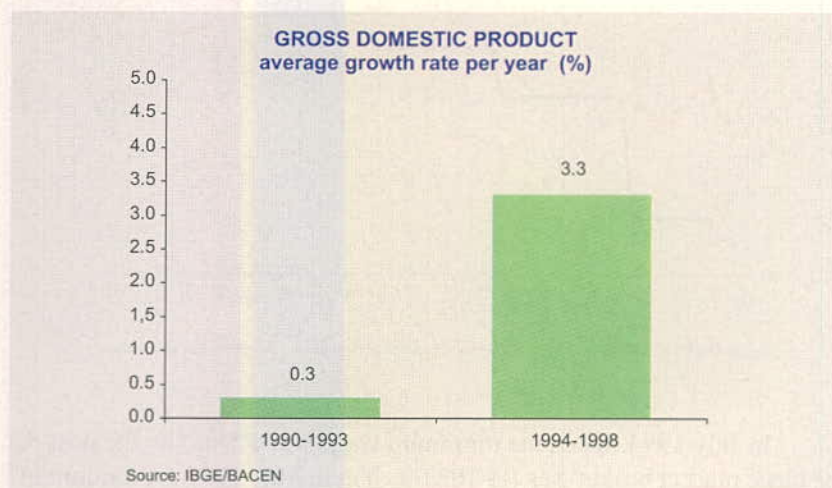
This outcome was made possible only due to the monetary policy adopted and the effects of the liberalization of the economy, which created a new standard of competitiveness in the domestic market. This change, aside from having generated an improvement in the quality and variety of the products and services available to the consumers, practically eliminated the automatic passing on of cost pressure into prices.



In July 1994, when the minimum wage was R\$ 65,00, the cost of the basic market basket was R\$ 102,00. Yet in May 1999 the amount of the minimum wage was R\$ 136,00, greater than the R\$ 124,20 cost for the basic market basket.

The graph demonstrates that the amount of the minimum wage began to be greater than the cost of the basic market basket in May 1996. Since the beginning of the Real Plan, the minimum wage has increased approximately 110%, while the basic market basket has scarcely reached 14%.

## GROWTH



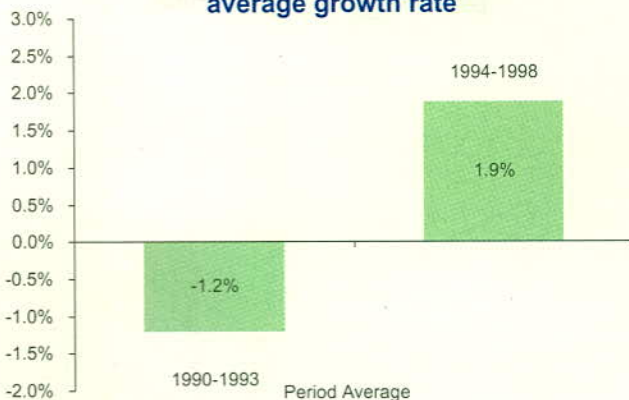
The Gross Domestic Product (GDP) grew 17% in real terms from 1994 through 1998, which is equivalent to an annual average growth rate of 3.3%. In contrast, the average growth of the GDP was just 0.3% in the four years that preceded the Real Plan.

1998 was the sixth consecutive year of GDP growth, a trend which had not been occurring since the end of the 1970s.

From 1990 to 1993 the negative growth of the GDP was the result of two years of positive growth rates (1991 and 1993) and two other years of recession (1990 and 1992), reflecting a “seesaw” pattern, which had been the rule during the 1980s and early 1990s.



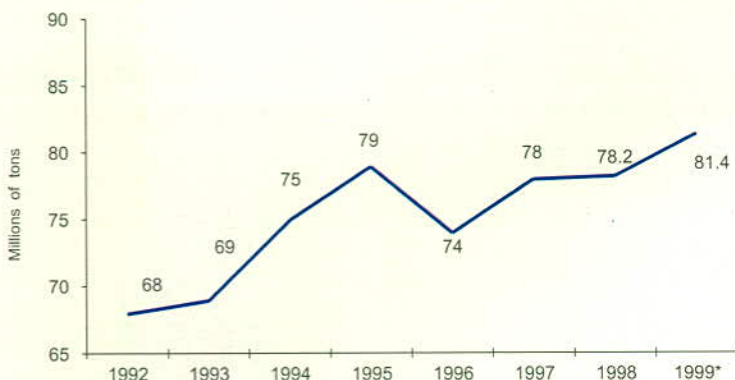
### REAL PER CAPITA GDP average growth rate



Source: IBGE/BACEN

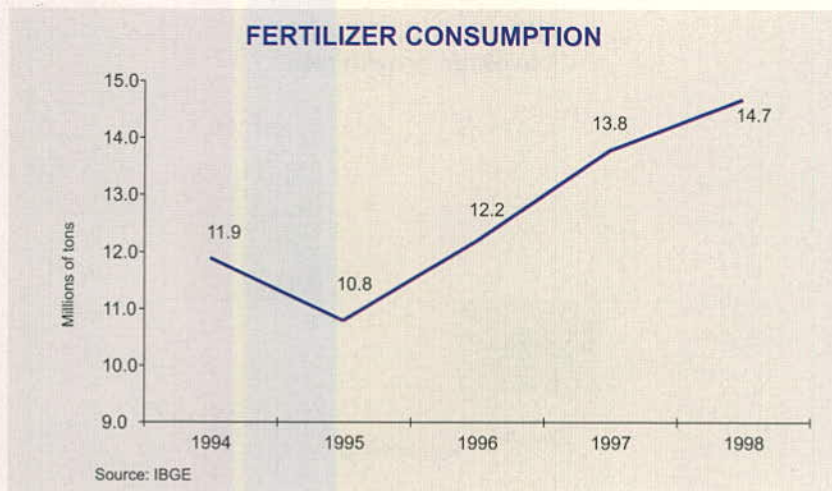
From 1994 to 1998, real per capita GDP grew at an average rate of 1.9% per year, reaching R\$ 5,570.00 per inhabitant.

### GRAIN PRODUCTION



\* forecast  
Source: IBGE

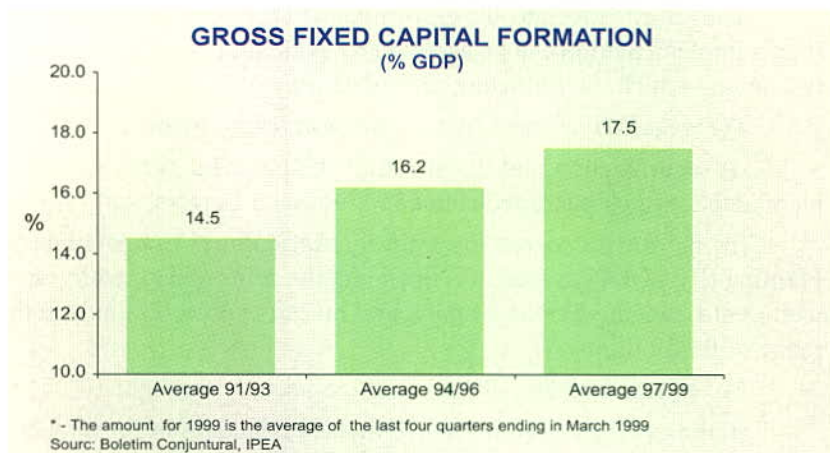
During the Real Plan, Brazilian grain production has advanced from 75.2 million tons in 1994 to 81.4 million tons in 1999, primarily reflecting the agricultural policies adopted by the Government.



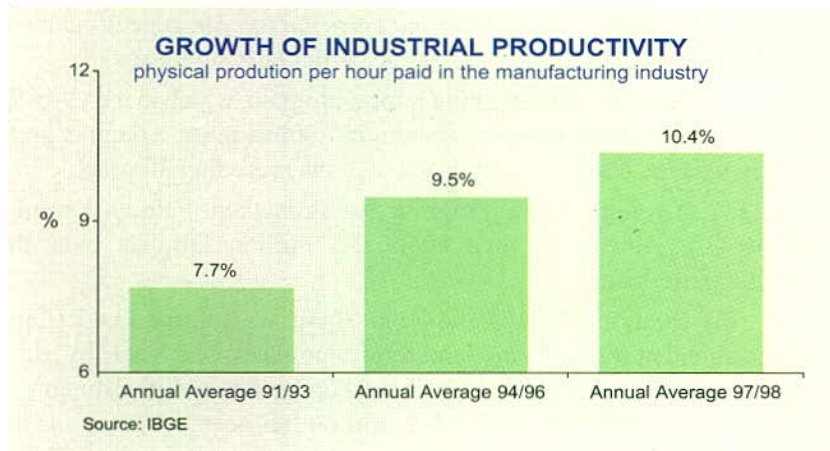
In agriculture, technology has advanced rapidly. One indicator of this trend is the consumption of fertilizers, which increased from 11.9 million tons in 1994 to 14.7 million tons in 1998. This represents an increase of more than 5% per year in the use of this agricultural input.

After a fall in 1995, sales of agricultural machinery also began to increase, indicating that rural investments are growing.

## PRODUCTION INCENTIVES



The rise in the economy's investment rate—associated with the trend toward longer-term planning by business executives facilitated by the economic stabilization—is contributing to the sustainability of the growth in the real GDP.



In the 1994-98 period, there were salary increases without inflationary pressures. This is partly explained by the increase of almost 10% in average industrial productivity during this period, and is associated with the technological modernization of industrial infrastructure, as well as with the introduction of new business management techniques.



## AGRICULTURAL INCENTIVES

The priority given by the Government to agriculture after the Real Plan's implementation can be assessed by evaluating a series of measures, among which the following are noteworthy:

a) *Promotion of improvements in rural areas*, by means of:

(i) securitization and extension of the payment periods for farmers' debts, which benefited about 350 thousand farmers; and

(ii) the Revitalization Program for Agricultural Cooperatives in Farming (RECOOP), aimed at refinancing the debts of cooperatives, as well as at financing working capital and investments, with funds in the range of R\$ 3 billion.

b) *Reduction of the "Brazil Cost"*, especially through:

(i) the ex-ante determination of financial obligations for rural credit, in lieu of the "reference rate"; and

(ii) the exemption of the Tax on the Circulation of Goods and Services (ICMS) from exports of products produced in rural areas, making Brazilian products more competitive.

c) *Prioritizing small farms and agrarian reform*, generating income and employment in the rural areas, particularly by means of:

(i) expansion of the agrarian reform program, which in the 1995-98 period promoted the settlement of about 287,000 families, a number greater than what had been accomplished over the preceding 30 years;

(ii) creation of the Program to Strengthen Family Farming (PRONAF), which benefited about 1.5 million families over the 1995-98 period; and

(iii) creation of the Lands and Agrarian Reform Fund (Land Bank), aimed at restructuring land reform policies, which acts by granting financing for the acquisition of rural properties and investments in basic infrastructure. About R\$ 123 million has been allocated for the 1999 fiscal year.

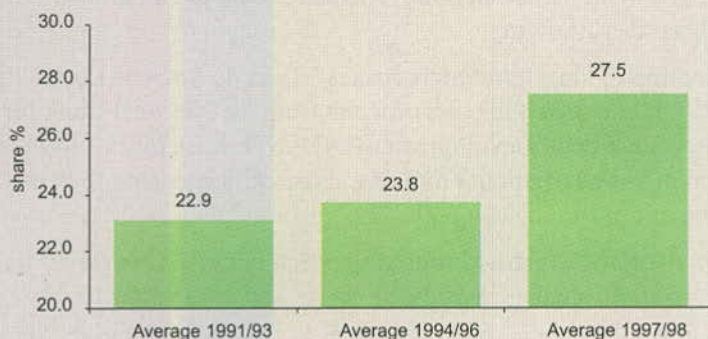
By restoring adequate levels of capitalization for the rural sector, these government initiatives have had a decisive effect in fostering consistent increases in agricultural production, despite the high volatility of international prices.

## NEW INDUSTRIAL POLICY

The main industrial policy measures adopted under the Real Plan have been the following:

- Adoption of long-term interest rates ( Taxa de Juros de Longo Prazo - TJLP) that reduce the costs of loans from the National Bank for Economic and Social Development (BNDES) toward levels closer to those found in international markets, drastically reducing the cost of investment in Brazil.
- Support for the restructuring of the sectors most affected by trade liberalization, such as textiles, footwear and auto parts.
- Establishment of the Program to Support Exports of Manufactured Products (BNDES/EXIM), which works with almost all export sectors by means of offering internationally competitive lines of financing.
- Adoption of the New Export Centers Program (PNPE) in 14 States, to promote the export business in areas aside from the traditional export centers.
- Establishment of the Export Financing Program (PROEX), which supports the exports of Brazilian goods and services with funds from the federal government through two mechanisms:
  - a) direct financing of exporters (PROEX-financing); and
  - b) payments to equalize interest rates (PROEX-equalization).
- Support for small and medium-sized companies. This program was created with the purpose of facilitating access to medium and long-term credit by small and very small companies (through the Special Agency for Industrial Loans - Agência Especial de Financiamento Industrial - FINAME).
- Endorsement Fund (dedicated to small and medium-sized companies). Also aimed at promoting access to credit, especially for exporting companies.

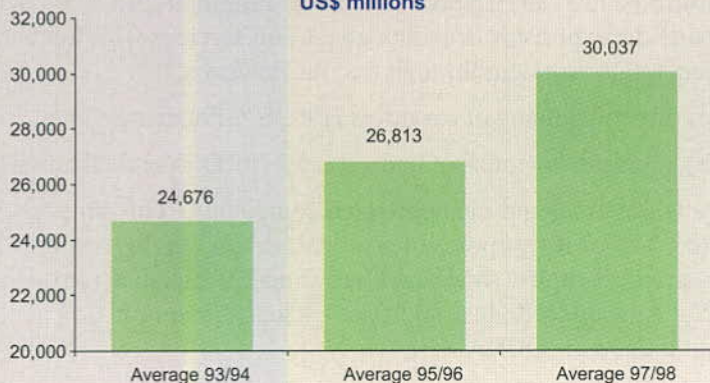
### CAPITAL GOODS AS A PERCENTAGE SHARE OF IMPORTS



Source: MF/SRF

The increase in the capital goods share of Brazil's total imports is an indicator of the modernization of the production system and of the growth of productivity.

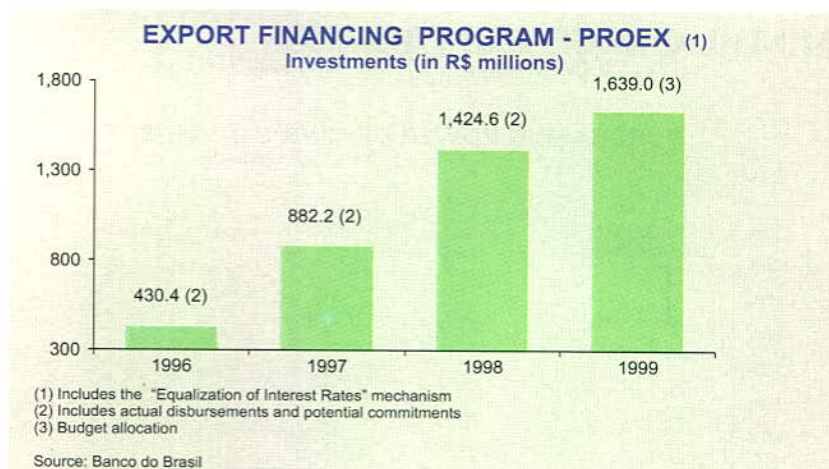
### MANUFACTURED GOODS EXPORTS US\$ millions



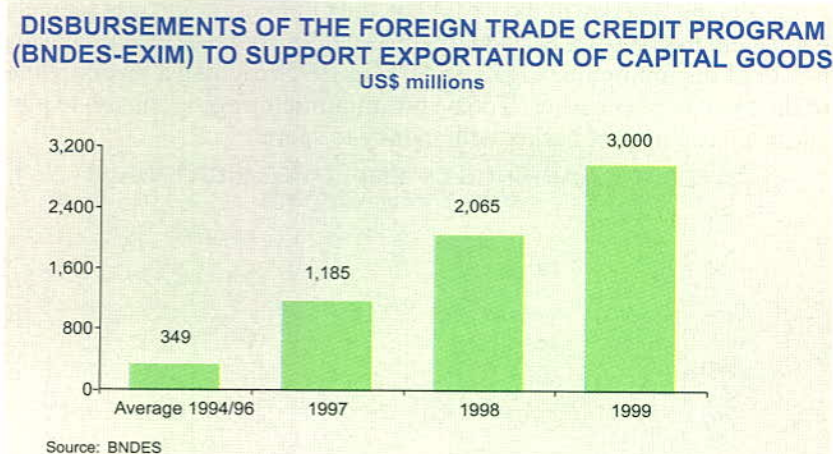
Source: MDICT/SECEX

The significant increase in foreign sales of manufactured products in 1997 and at the beginning 1998 demonstrated that the restructuring of production had begun to generate its first benefits, especially at the beginning of 1997.





The Export Financing Program (PROEX) seeks to offer Brazilian exporters the same financing conditions obtained by our competitors, by means of direct financing to exporters and payments to equalize interest rates.

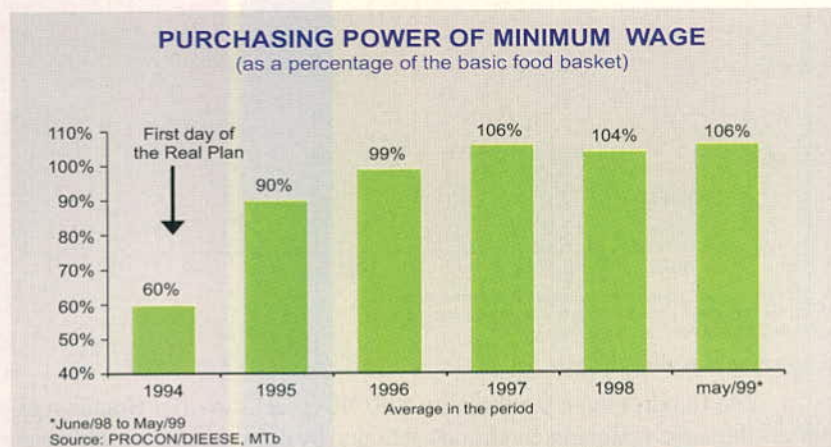


The BNDES - EXIM Program constitutes yet another example of government initiatives to reduce financing costs for production and exports.

The funds allocated for this Program to Support Exports of Capital Goods have grown significantly. The average of the funding levels for 1997 and 1998 represent 4.6 times the average funding levels for 1994 to 1996. Furthermore, the spending projected for 1999 exceeds the 1998 level of disbursements by 45%.

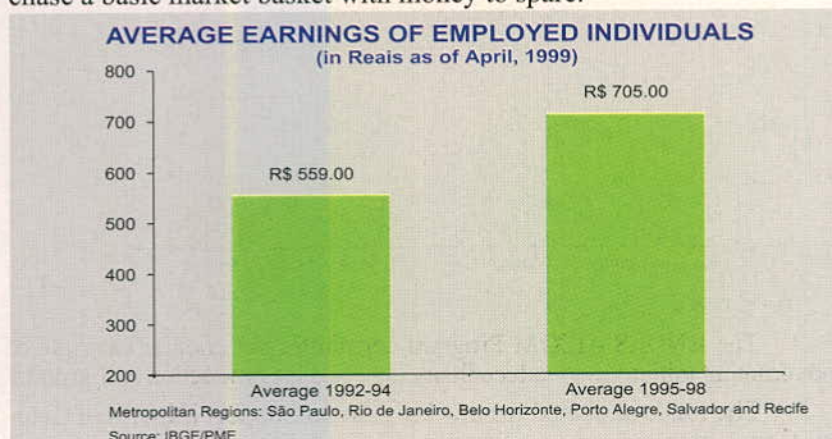


## MINIMUM WAGE AND EARNINGS



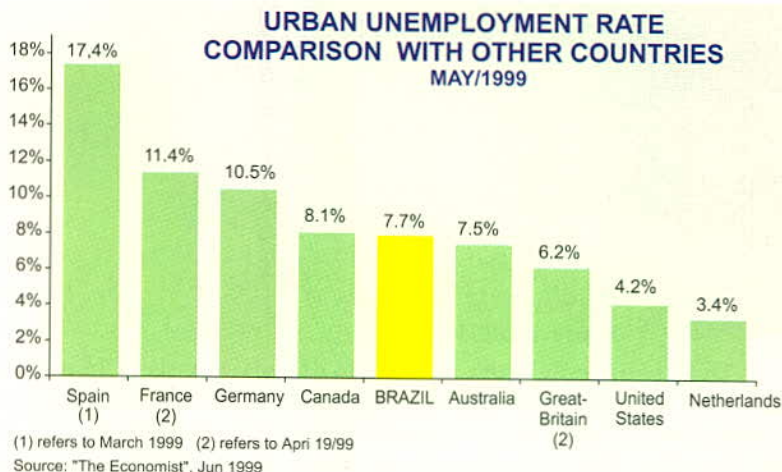
The nominal minimum wage has doubled during the Real Plan.

On the first day of the Real Plan, the minimum wage was scarcely equivalent to 60% of a basic market basket. In contrast, the purchasing power of the minimum wage rose 50% in 1995 reaching a level of 90% of the basic market basket. Today, one minimum wage is enough to purchase a basic market basket with money to spare.

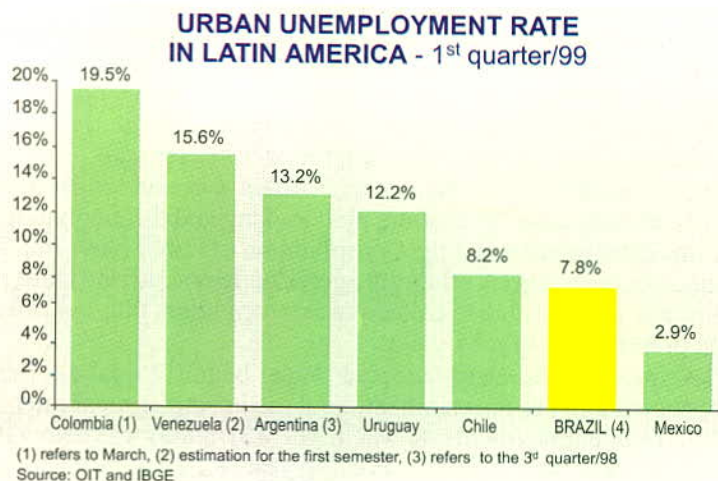


Workers' average real earnings grew 26% with the implementation of the Real Plan, based on the averages of the pre-Plan and post-Plan periods.

## EMPLOYMENT



The urban unemployment rate in Brazil continues to be relatively low, when compared to the rates of OECD countries.



Compared to Mexico and the largest countries in South America, Brazil has the second lowest unemployment rate for 1999.

**BRAZIL**  
**UNEMPLOYMENT RATE FIGURES**  
**(EM %)**

YEAR	RATE
1992	5.86
1993	5.30
1994	5.06
1995	4.64
1996	5.42
1997	5.66
1998	7.60
1999*	7.61

\* 12 month average until May

Source: IBGE/PME

The Real Plan brought changes to the labor market. In order to make the market more flexible and stimulate the creation of jobs, the Government has been developing two sets of policies.

The first set comprises shorter-term policies. Aside from minimizing the costs of new recruitment, they aim to safeguard employment and to promote the creation of job positions, benefiting not only the unemployed, but also the young who are trying to join the job market.

Among those measures, it is worth highlighting: the establishment of job contracts for a fixed period of time; the legalization of the "Hour Bank", which allows the job to be adapted to seasonal and cyclical variations in production; the regulation of part-time work; and the temporary suspension of the job contract, providing for the training of workers during a fixed period following his or her dismissal.

The second set of policies will take effect over the longer term. They aim to modify labor legislation, modernizing and differentiating it from the one established under the Consolidation of Labor Laws (CLT). The changes include, among others, the goals of democratizing labor relationships and giving value to collective representation, thus contributing to the preservation of jobs.

The measures already adopted have begun to take effect, therefore contributing to the stabilization of the unemployment rate. In May 1999, the unemployment rate was 7.7%, which thus was below the rate during the same period of the preceding year (8.2%). The recent net creation of job positions, particularly among workers with registered jobs and in industry in general, seems to suggest that the sharpest effects of the international crisis may be behind us.

**EMPLOYED POPULATION BY SECTOR  
METROPOLITAN REGIONS - (MAY 1994-1999)**

Increment observed during the Real Plan

Manufacture	-10.4%
Construction	-3.2%
Trade	6.5%
Services	16.4%
Others	-0.3%
Overall Average	6.9%

Metropolitan Regions: São Paulo, Rio de Janeiro, Belo Horizonte,  
Porto Alegre, Salvador and Recife

Source: IBGE/PME

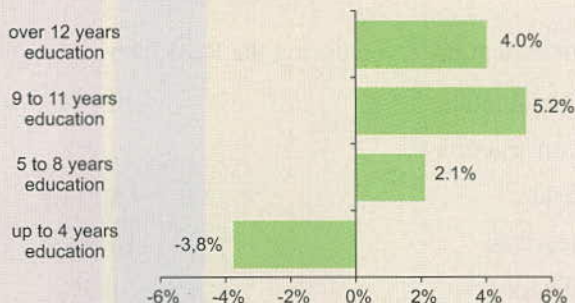
From 1994 to 1999, the percentage of the population employed in the six major metropolitan areas increased 6.9%.

The reduction in employment, a more sensitive issue in the manufacturing sector, was more than compensated for by the creation of work positions in the service and trade sectors, in accordance with a world-wide trend.



### IMPORTANCE OF EDUCATION IN THE FIGHT AGAINST UNEMPLOYMENT

Job Positions Offer (1991/1998 - annual average growth)  
Metropolitan Regions\*



\*Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife  
Source: IBGE/PME

From 1991 to 1998, the number of positions increased in the most skilled job categories. Simultaneously, a reduction of 3.8% occurred in the number of positions occupied by workers with up to four years of schooling.

This is one of the reasons why the Government has made extraordinary efforts to increase the skill level of the labor force. From 1995 to 1998, more than 5 million workers were eligible for the National Worker Skills Plan – (PLANFOR), utilizing funds of about R\$ 1 billion.

Because of these changes, workers with less education—who in 1991 accounted for 39.0% of the working population, had their share decreased to 27.4% in 1998. On the other hand, the share of the total working population accounted for by those with 9 to 11 years of schooling rose from 21.2% to 28%. Furthermore, the percentage of positions occupied by professionals with 12 or more years of education rose from 14.3% to 17.4%.

## CONSUMPTION AND QUALITY OF LIFE

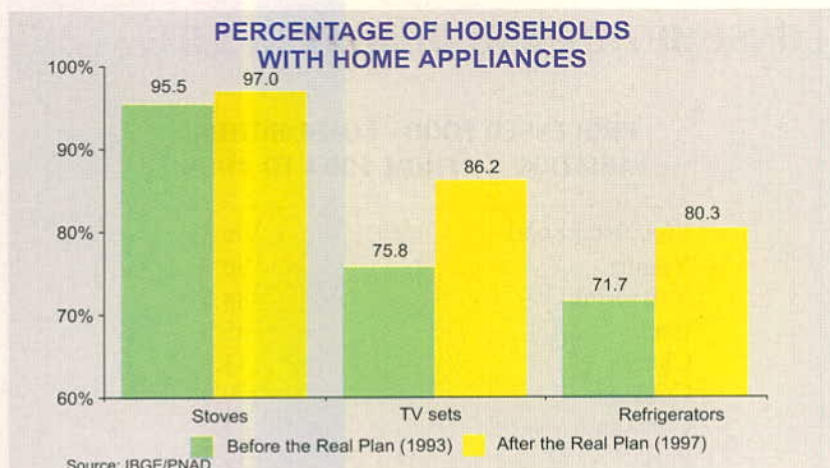
### PROCESSED FOOD - CONSUMPTION VARIATION % - FROM 1994 TO 1998

Processed Food	Var %
Yogurt	90.7
Soft Drink	88.5
Beer	65.3
Cheese	53.9
Cookies	50.0
Chicken	43.2
Pork	33.4
Beef	29.1
Fish	4.6

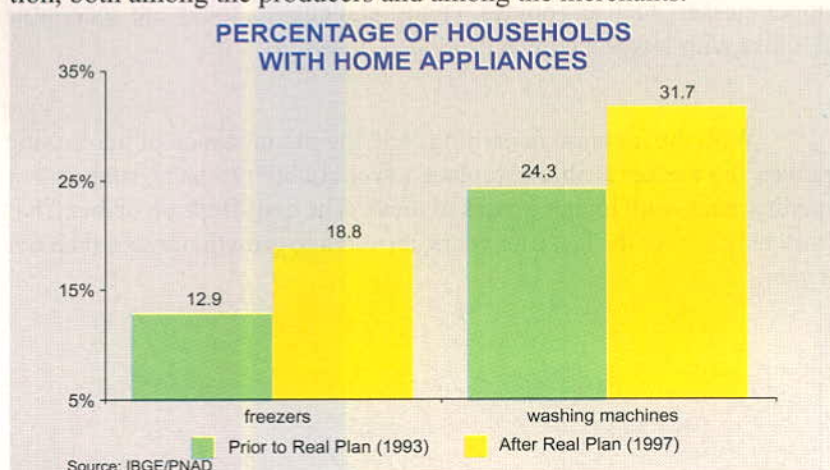
Source: Brazillian Association of Food Industries - Abia

Products that previously were only consumed by the middle and upper classes, such as cookies, yogurt and cheese, today are accessible to those with lower incomes.

With the increase in earnings and the maintenance of purchasing power, the worker is able to replace lower quality products, such as low quality meat, with higher grades of meat. The consumption of beef has grown 29% over the last four years, an average growth of more than 6% a year.



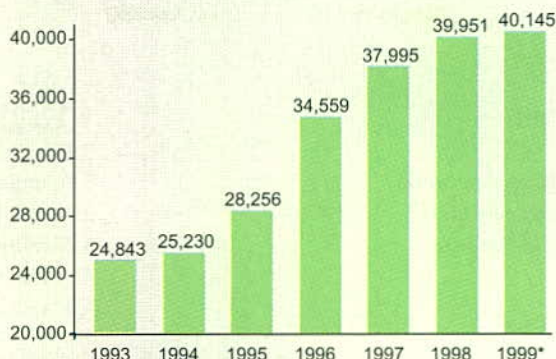
The Brazilian population is already well supplied in terms of basic appliances, such as stoves, radios, television sets and refrigerators. With the Real Plan, access to those goods has improved even more, a consequence of both the increase in the population's purchasing power and the reduction in real prices, which was partly due to greater competition, both among the producers and among the merchants.



The Real Plan also provided an expansion in the supply of financing, with longer payment terms and installments fixed in Reals. As a result, the level of consumption increased not only among lower-income families, but also among the middle class.

## NATIONAL CEMENT CONSUMPTION

in 1,000 tons



\* accumulated in 12 months until March

Source: "Conjuntura Económica" Magazine, FGV

Under the Real Plan, the growth of investments, as well as income re-distribution and access to credit for the lower income population, contributed to a significant increase in cement consumption, which was also stimulated by the phenomenon of do-it-yourself home building. The consumption increased 58%, which corresponded to an average growth of 12.2% a year between 1994 and 1998.



## BASIC INFRASTRUCTURE NEW PRIVATE HOMES

Basic Infrastructure	New Homes Served 1993-1997*
Water supply (general network)	3.96 million
Sewage (collection network)	2.20 million
Daily Collection of Garbage	5.27 million
Electric Light	4.80 million
Telephone	4.04 million

\* Latest available data

Source: IBGE/PNAD

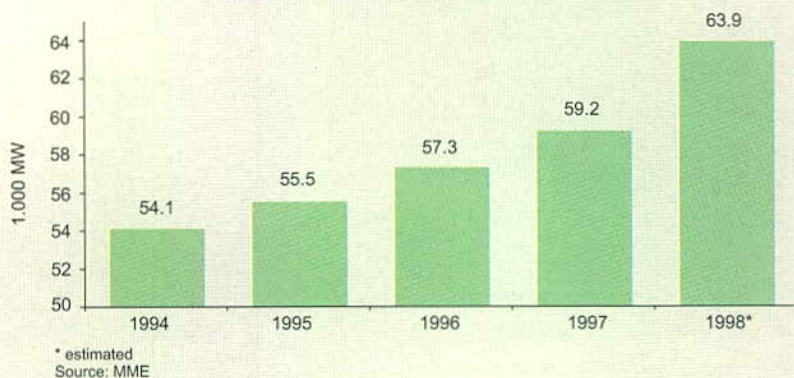
The stabilization promoted by the Real Plan enabled the Government to increase investment in the social area. There was a significant growth in the percentage of new private homes provided with basic infrastructure services.

Between 1993 and 1997, significant improvements in the quality of Brazilian homes occurred: almost four million new homes were supplied with water; more than two million were provided with sewerage; and almost five million new homes gained access to electricity.

Following the implementation of the Real Plan, more than five million new homes were served by garbage collections and, until 1997, four million families had new phone lines installed.

There was a substantial fall in the price of telephone service. The fixed telephone lines, which cost an average of R\$ 1,117,63 in August 1994, dropped to R\$ 54,67 in June 1999, an amount that represents only 5% of the preceeding cost.

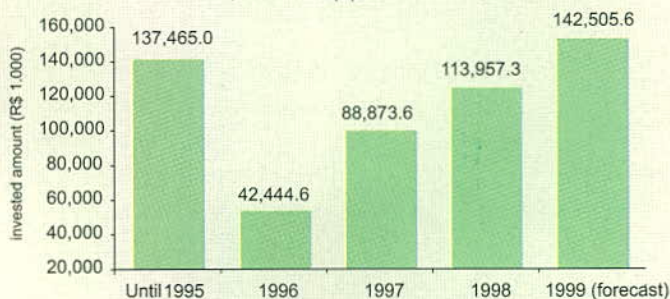
### INSTALLED CAPACITY FOR GENERATION OF ENERGY



From 1994 to 1998, there was an 18% increase in the installed capacity for the generation of electricity, that is, an annual growth rate of 4.2%.

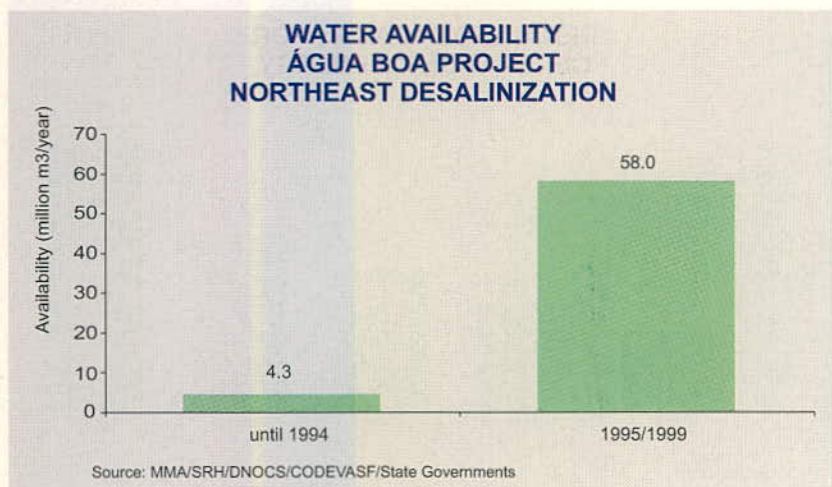
### INVESTMENT INCREASE IN PIPELINES FOR THE NORTHEAST

300 million m<sup>3</sup>/year available  
1,600 km of pipelines built



Source: MMA

The investments expected in pipelines for 1999 in the Northeast shall be greater than the total invested up to 1995. Compared to 1998, the increment should reach 25%.



The availability of water (desalinization in the Northeast) in the period 1995-1999 was equivalent to 13.5 times the availability achieved up to 1994.

# **FISCAL POLICY AND STRUCTURAL REFORMS**

## **1. INTRODUCTION**

The Constitution of 1988 imposed severe limits on the Union: an increase in the participation of States and Municipalities in the federal tax collection; a marked increase of the binding of federal revenues; and the granting of a series of social security benefits without due compensation in revenues. The disagreement generated was fully perceived with the stabilization of prices beginning with the Real Plan, when the corrosive mechanisms of expenses ceased being effective, with a resulting increase in public deficit.

With the Debt Refinancing Program for State Governments, the Federal Government eliminated the main financial constraint in that sphere. The volume of debts accumulated in the past was significant and its repayment would make the State's responsibility of meeting social demands unachievable.

The Federal Government's aid was accompanied by a wide program for adjustment of the State Governments. This adjustment involved from the modernization of its systems for financial and fiscal administration up to the firm commitment of privatizing state companies. Therefore, besides solving the problem of previous debt, the program in course will allow significant gains in terms of planning capacity and control of public spending. Such gains can be reverted to society in the form of greater efficiency and quality of public spending. A good example of this process is the Government of the State of São Paulo. After a difficult adjustment process, it now has the capacity to recover the investments and expenses aimed at providing for the basic needs of the population of the State.

## **2. REFORMS**

The Federal Government proposed a series of structural reforms to Brazilian society with the following objectives: to reduce the visible public deficit after economic stabilization; to save in personnel ex-



penses and other costs; to increase the quality of public expenditure; and to make the tax system fair, rational and effective.

The reform discussion process ended up demanding too much time, since the reforms deal with issues of great complexity, which involve conflicting and scattered interests in the community. Furthermore, as many proposals entailed constitutional amendments, the processing by the Legislative branch had to respect inherent additional restrictions to parliamentary, political parties and federative structures following the Constitution of 1988.

### **3. RECOVERY OF THE ROLE OF PUBLIC BUDGET**

The stability of prices allowed the recovery of the budget role as an instrument for public expense planning. Now the budget truly expresses the government expenditure policy.

The budget is the main instrument suitable for the Legislative branch to intervene in the public expenditure policy. The strengthening of the budget represents, therefore, the strengthening of the Legislative branch itself, an indispensable condition for the maintenance of the democratic regime.

The transparency of the budget is also an indispensable condition for the Legislative branch, to examine the actions of the Executive branch, by means of the Audit Court of the Union.

### **4. ADMINISTRATIVE REFORM**

The administrative reform enacted by Congress in June, 1998, is of major importance for the Government, in its various spheres, to have the necessary flexibility to carry out the adjustment of its personnel. The full effects of the reform still depend on the approval of several additional measures already presented to the National Congress.

Among those measures the Camata Bill should be emphasized, as well as other related measures, which imposed a limit of 60% of the net revenue for the expenses with personnel. The compliance with that limit is essential to guarantee the balance of public accounts, as personnel expenses place a heavy burden on the budgets of States and Municipalities.

## **5. SOCIAL SECURITY REFORM**

The restructuring of the social security sector, both public and private, is of fundamental importance. Its regulation has been sought not only for the balance in social security accounts, but also with the objective of making financing more equal among the participants and fairer between the two systems (private sector workers and federal, state and municipal public workers).

Constitutional Amendment no. 20 established rigid rules for the concession of retirement for public workers, such as the minimum age of 53 years for men and of 48 years for women. While the number of people entering retirement has not been reduced, the decrease in the deficit will depend on the approval of laws determining the increase of the social security contribution rates of active workers and its extension to those who are inactive.

From the point of view of the social security regime of workers in the private sector, it is necessary to deepen the social security reform, having as a general guideline the greater linkage among the benefits of inactivity and the contribution by the beneficiaries themselves.

## **6. TAX REFORM**

The stabilization of prices highlighted the need for reform in the tax system, as the environment of a high and growing inflation that previously hid the distortions of taxes and effective contribution structures disappeared.

If, on one hand, the tax burden must be better distributed among taxpayers, on the other hand, it would be necessary to reduce the fiscal evasion. At the same time, it would be necessary to simplify, rationalize the tax structure, facilitating the procedures both for individuals, companies and for the revenue bodies. In that sense, a reduction of the burden on the productive process and exports would be necessary.

## **7. FISCAL STABILIZATION PROGRAM**

The fiscal policy strategy in the first years of the Real was marked by gradualism. Such option was made unfeasible by 1997 and 1998 in-



ternational crises. Thereafter, measures with great impact were adopted in relation with the evolution of public accounts and were designed to demonstrate the Brazilian Government's firm commitment to a consistent economic policy.

The main measures for curbing federal public expense were as following: the establishment of minimum goals of primary surplus for the consolidated public sector; acceleration of the social security and administrative reforms; creation of new legal instruments capable of promoting tight fiscal policy and fiscal responsibility on the part of State Governments; and continuity in the efforts of privatization and concession of services to the private sector, inducing the adhesion of States and Municipal districts.

In consequence, since the last four months of 1998, the fiscal policy began to be based on the commitment to achieving minimum goals of primary surplus, in the order of 3% of the GDP, with the purpose of stabilizing the relationship between public debt and the GDP throughout the next couple of years.

Regarding the structural and institutional issues, further progress is still necessary with relation to the presentation of the Tax Reform, the deepening of the social security reform, and the approval of the Fiscal Responsibility Law.

## **8. STATES, MUNICIPALITIES AND STATE-OWNED COMPANIES**

Important measures were taken in order to restrict the additional indebtedness of States, Municipalities and public companies by means of loans and the expansion of debts.

State debts were renegotiated and, in September 1997, a law promoting the extension and reduction of financial responsibilities was enacted. In consequence, the governments favored by those measures shall implement fiscal adjustment programs to promote the generation of primary surpluses and committed to reducing their debt/net real revenue ratios. Programs of collaboration with the States were created for the restructuring of personnel and, more specifically, for the clearance of state owned banks.

## **9. FISCAL RESPONSIBILITY LAW**

In April, 1999, draft legislation was presented to Congress with provisions aiming at , among other subjects, the establishment of rigid limits for public indebtedness and for the expenses in the three branches of government. That institutional change shall serve as a basis for the consolidation of the new fiscal regime.



# PRIVATIZATION PROGRAM

## NATIONAL PRIVATIZATION PROGRAM - 1991/1999

US\$ millions

Sector	Number of companies	Result	Transferred Debt	Total
Metallurgy	8	5,562	2,626	8,188
Petrochemical	27	2,698	1,003	3,701
Railways	7	1,698	0	1,698
Mining	2	3,305	3,559	6,864
Telecommunications	25	26,970	2,125	29,095
Energy	3	3,907	1,670	5,577
Others	16	1,401	343	1,744
Participation	0	1,040	0	1,040
Federal	88	46,581	11,326	57,907
State	29	23,724	5,311	29,035
Total	117	70,305	16,637	86,942

Source: BNDES

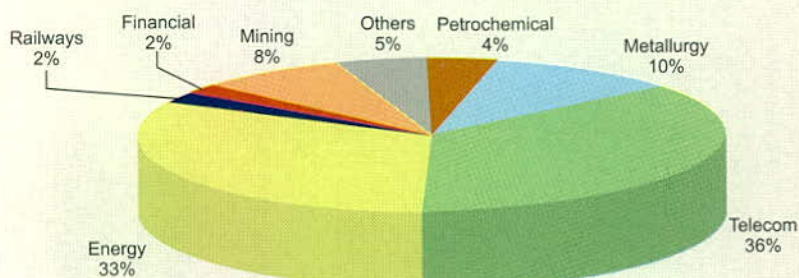
In May/99

Preparation: MF/SPE

The privatization and concession program was strongly stimulated after the stabilization of prices resulting from the Real Plan. It results as much from the redefinition of the Brazilian productive sector's structure, substituting the old tripod (state companies, major domestic and family-owned companies and foreign companies), as from a strategy for structural adjustment of the public accounts.

Such redefinition was fundamental to relieve the State from contributing with resources for the modernization and expansion of state companies. This is essential in an open economy that has been part of an increasingly competitive international environment. Moreover, fiscal resources have ceased to be consumed in activities in which the participation of the State is no longer necessary, thus directly contributing to the achievement of better primary fiscal results and favoring the restructuring of public spending of basic social services.

### RESULTS PER SECTOR — 1991/1999



Source: Ministério da Fazenda

The privatizations, limited between 1991 and 1995 to companies controlled by the Federal Government in the industrial sector, were largely broadened in the last four years. They have not only reached other sectors of the economy, namely infrastructure, starting from the reforms of economic order and of the approval of the Law of Concessions, but also other government spheres, particularly the States.

### SALES REVENUES EXCLUDING TRANSFERRED DEBTS



Source: Ministério da Fazenda

An important aspect of the privatization and concession program is its contribution in attracting direct foreign investment, supporting the modernization and improvement of the Brazilian economy. From an annual average level of US\$ 1.2 billion in 1992-1993, direct foreign investment reached an annual average of US\$ 21.6 billion for the period of 1997-1998, which is equivalent to practically two thirds of the deficit of the external accounts in the same period.

Another important aspect of the privatization program is its influence on the increase of the aggregate investment rate, which rose from 14.5% of the GDP in the 1991-1993 period to 16.9% of the GDP in the 1994-1999 period (data for 1999 equals the average of four quarters until March.)

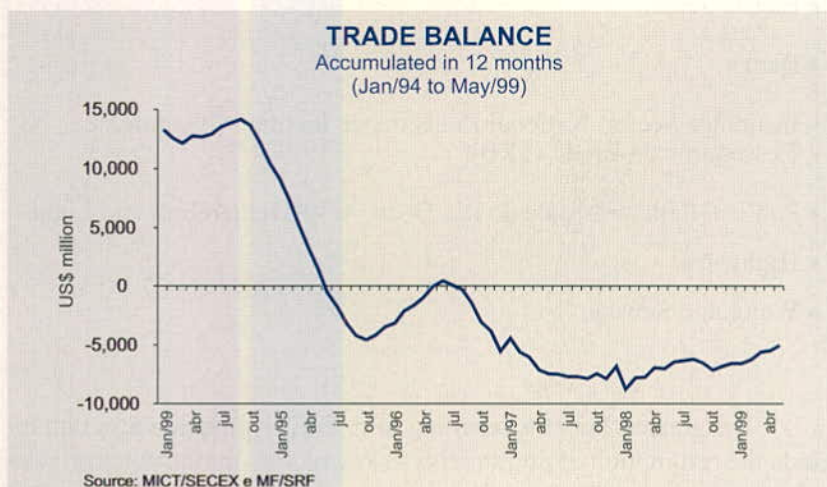
## NEXT PRIVATIZATIONS

- Eletric Sector
- Banks
- Insurance Sector: National Reinsurance Institute (Instituto de Resseguros do Brasil - IRB)
- Public Offers: Cia. Vale do Rio Doce - CVRD, Petrobrás and Light
- Highways
- Water and Sewage

The greatest benefits resulting from the privatization program include the resumption of investments in key sectors for the country's development, such as telecommunications, energy and transportation. Such recovery constitutes a decisive process to remove economic bottlenecks, which have accumulated for more than one decade. Also important for the economy as a whole, are the efficiency gains associated with the substitution of the state administration by the private administration of for infrastructure services, and the implementation of a regulatory system that favors competition amongst the providers of such services. Furthermore, the privatization revenues contribute to the reduction of public debt, therefore providing a potential decrease in debt payment arrangement.



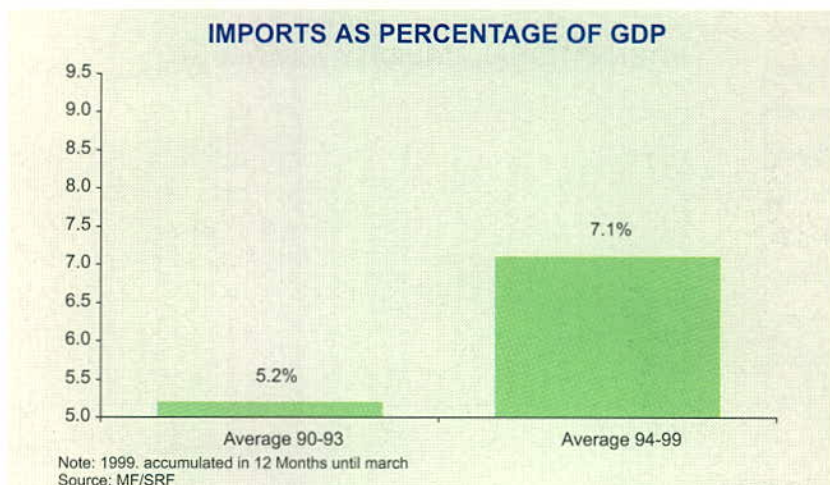
## EXTERNAL SECTOR



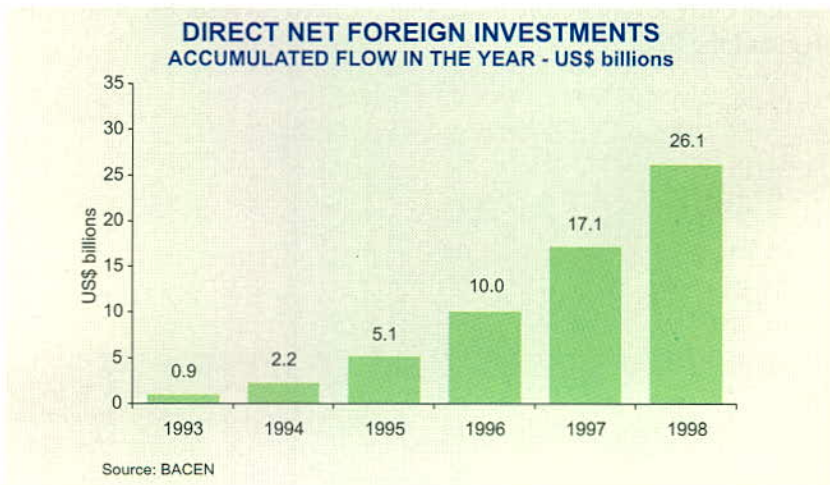
The Brazilian trade balance, annually measured, has been in deficit since the middle of 1995. This reflects, above all, the trade liberalization of the Real Plan, the increase in the rate of investment, and the restructuring of the production sector.

From the second half of 1998 on, the performance of the total and manufactured exports began to reflect a fall in international commodity prices and the slowing of world trade due to the international economic crisis. The exports of manufactured goods were particularly affected by the impact of the crisis in Latin America (negative growth), an a region that absorbs approximately 40% of the Brazilian exports of manufactured goods.

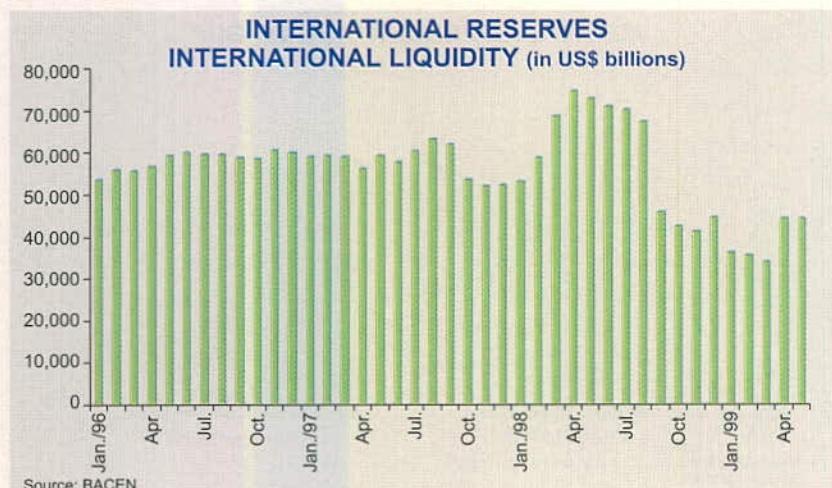
More recently, the devaluation of the exchange rate is stimulating exporters to regain markets and open new ones as well as encouraging import substitution. These movements demand time, and should generate positive results starting from the second half of 1999.



The import coefficient rose significantly after the Real Plan, reflecting the opening of the economy and the efforts for modernization in the production sector.



Foreign investors' trust in the perspectives of medium and long terms of the Brazilian economy is clearly demonstrated by the growing net inflow of direct foreign investments. From 1995 to April of 1999, there was a positive flow of US\$ 67,5 billion.



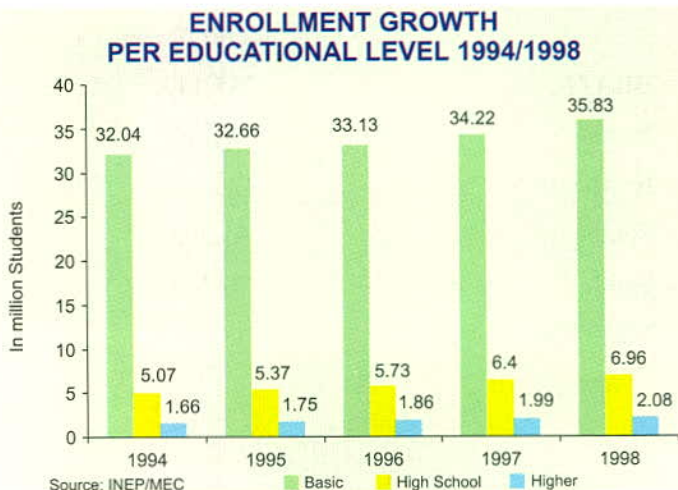
The shift in the Brazilian exchange rate in January 1999, with the adoption of free exchange, minimizes the risk of speculation against the Brazilian currency, therefore mitigating the need for reserves in order to safeguard the Real.

# **SOCIAL PROGRESS**





## EDUCATION



School enrollment rates increased in all levels of education.

In the 1994-1998 period, enrollment increased 12.2% for elementary education, 37.3% for high school, and 25.5% for higher education.

**"ALL KIDS IN SCHOOL" PROGRAM  
NATIONAL REGISTRATION WEEK  
FEBRUARY 7-14, 1998**

	n° of enrollments
BRAZIL	735,147
North	96,115
Northeast	426,234
Southeast	93,300
South	70,249
Mid-West	49,249

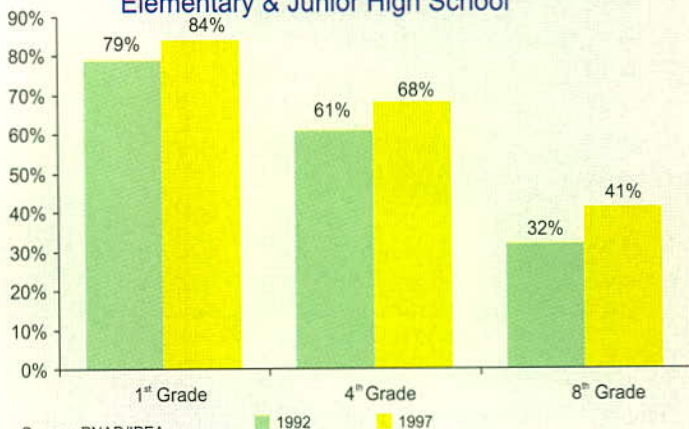
Source: MEC/INEP/SEEC

The growth in elementary education enrollment rates was intensified by the "Every Child in School" Program (*Programa Toda Criança na Escola*). Until 1997, there were 2.7 million children, age 7 to 14, who were out of school. The goal was to enroll between 300 and 400 thousand children in 1998. The Program's mobilization was so successful that 735 thousand children were enrolled during National Registration Week, in February 1998.

In the 1995-1998 period, the number of children enrolled not only increased, but also the passing rate of students in elementary education grew. In 1995, the rate was 70.6%. In 1997, it rose to 77.5%. In the same period, the failure rate dropped from 15.7% to 11.4%, and the dropout rate decreased from 13.6% to 11.1%.

In high school education, the passing rate of students jumped from 68.2% in 1995 to 78.8% in 1997. In the same period, the failure rate dropped from 10.1% to 7.5%, and the dropout rate decreased from 21.6% to 13.7%.

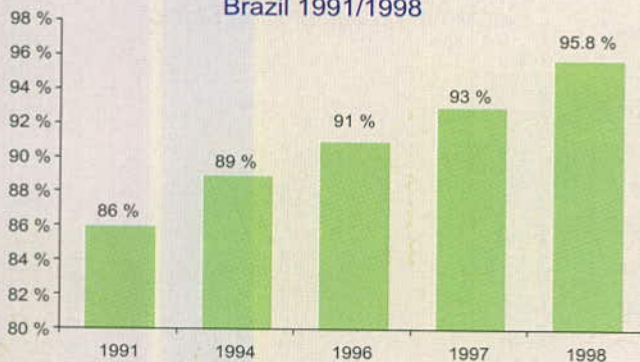
### PERCENTAGE OF CHILDREN FINISHING Elementary & Junior High School



The increase in enrollment numbers and the improvement of performance rates - supported by a decrease in failure and dropout rates and by the growth in the passing rate – have resulted in an important increase in the number of children who complete elementary education.



### NET SCHOOLING RATE Brazil 1991/1998



Source: MEC/INEP/SEEC

The Net Schooling Rate identifies the percentage of the population age 7 to 14 enrolled in elementary education.

The substantial growth of enrollments in elementary education, verified in the 90s, favorably reflects the increase of the Net Schooling Rate.

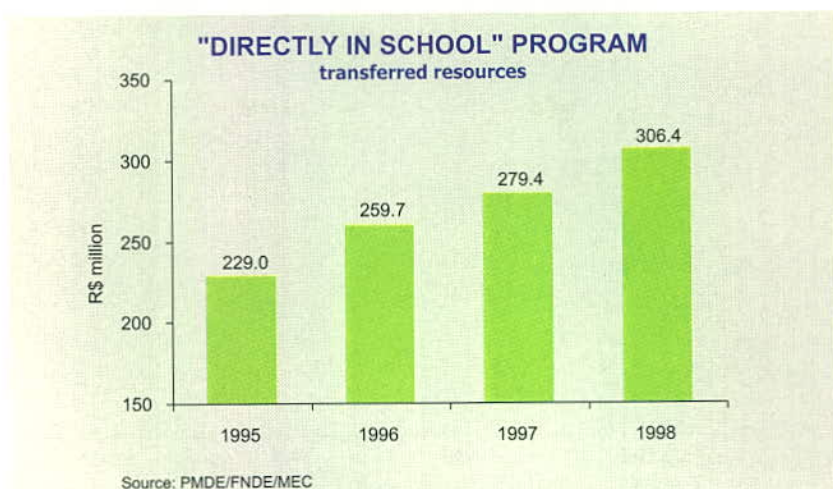
The attendance rate, which identifies the percentage of children enrolled in schools, regardless of the educational level, reached 96.5%. This percentage is equivalent to that of many developed countries.

### % OF CHILDREN ATTENDING SCHOOL PER AGE GROUP 1992/93 - 1995/97

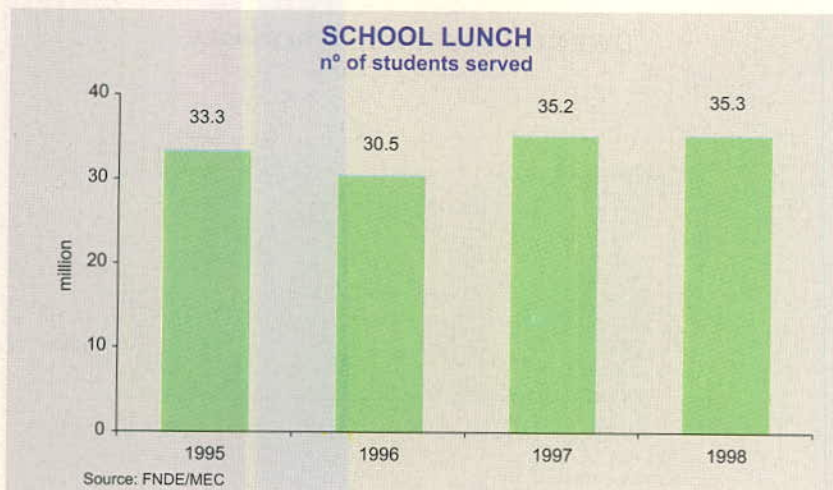


Source: PNAD/IPEA

There was an increase of more than 10 percent in the average number of children attending school between 1992-93 and 1995-97.



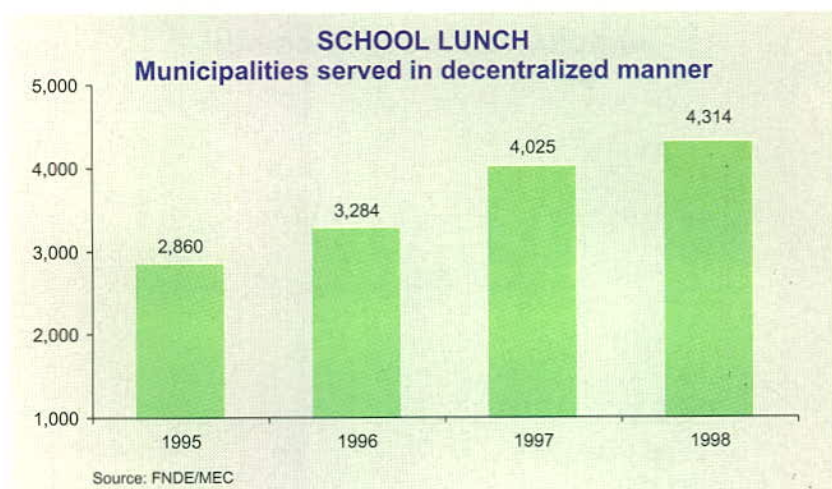
Federal Government's resources are passed directly to schools, in proportion to the number of enrolled students, by means of the "Direct Money in School" Program (Programa "Dinheiro Direto na Escola"). Therefore, the School Boards and the Parent and Teacher Association (PTA) began to have greater autonomy in the use of those resources. The number of such associations increased from 11,643 in 1995, to 54,591 in 1998, as a result of the "Direct Money in School" Program. This demonstrates the growth of communities' participation in education.



The National Program for School Meals, better known as School Lunch, is of great importance.

Created 40 years ago, the Program gained new dimensions in September 1995, when resources for its purposes were increased by 50%. In addition, it was gradually decentralized, thus permitting better use of its resources and a greater adaptation of the meal to the eating habits of different regions of the country.

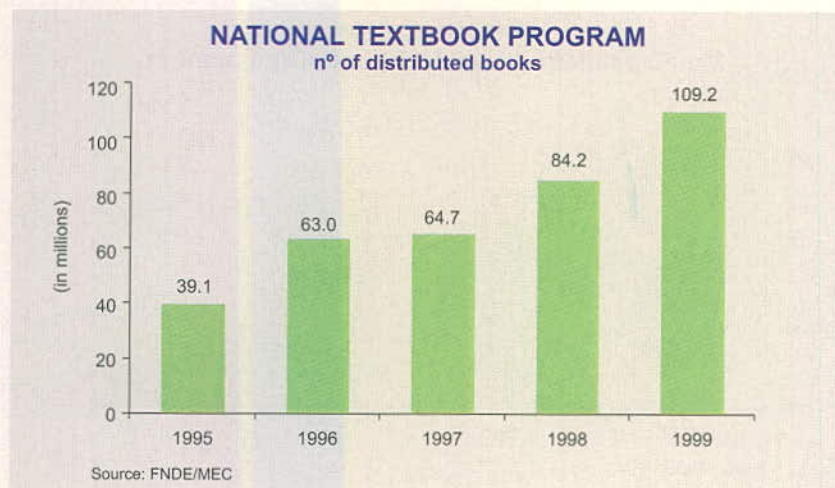
Brazil is one of the few countries in the world that distributes meals to more than 35 million students on a daily basis.



The School Lunch program is yet another instrument that contributes to the decrease in drop out rates and to the improvement in students' performance.

From 1996 to 1998, the resources used for school meals increased 73%. In 1999, the School Lunch is expected to receive R\$ 903 million, and it should assist about 36.9 million students in all 5,507 Brazilian municipal districts.

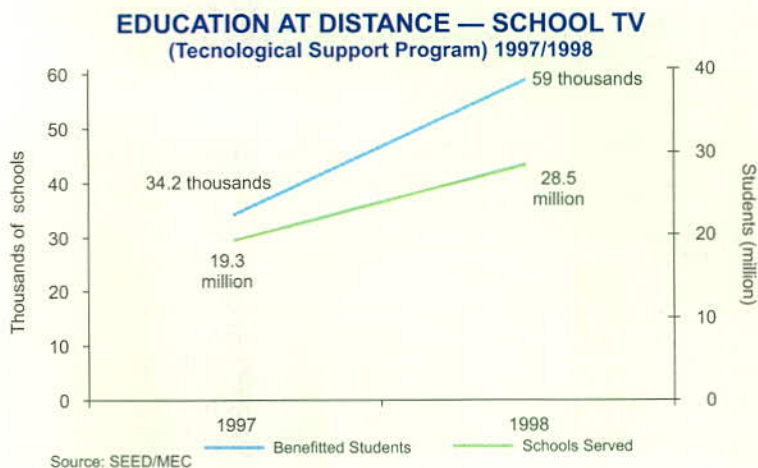




One of the important steps in improving the quality of education was the reformulation of the National Textbook Program. Prior to 1995, books usually did not arrive at schools. Now, books arrive before the beginning of the school year.

In 1998, 84 million school books were distributed. In 1999, 109 million have already been distributed.

In 1999, the Program is launching a wide campaign for the conservation of school books. This will economize the resources allocated for this program, besides motivating children to take care of the books and to share them with others.



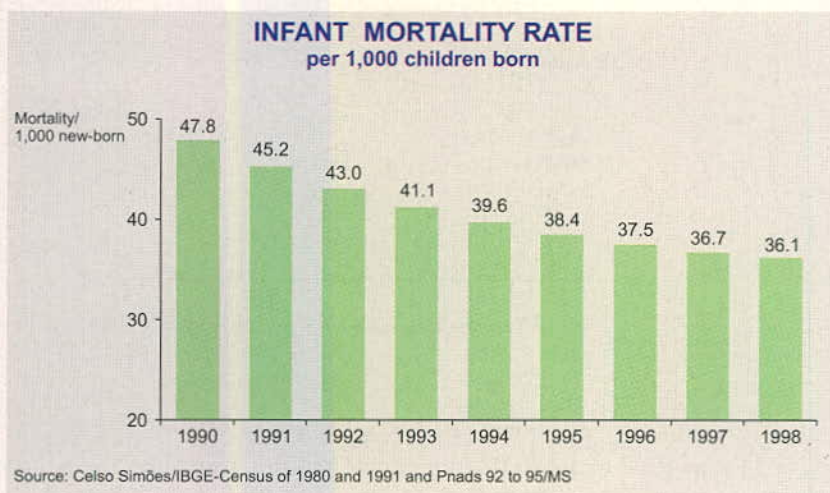
From 1997 to 1998, the number of schools served by the School TV Program increased 72.5%.

This Program reflects the Federal Government's commitment to quality and equity in Brazilian education, and also its support to professionals in education. Its main objectives include the improvement of the quality of teachers in public schools and the enrichment of the teaching-learning process.

Public schools with more than 100 students receive a set of equipment, entitled "technological kit", which allows them to taperecord worthwhile, daily programming related to the elementary education curriculum. School TV programs are complemented by special magazines, notebooks and guidebooks that guide students and teachers in the use of the programs.

In the 1995-1998 period, the Government invested R\$ 101.5 million in the School TV Program.

## HEALTH



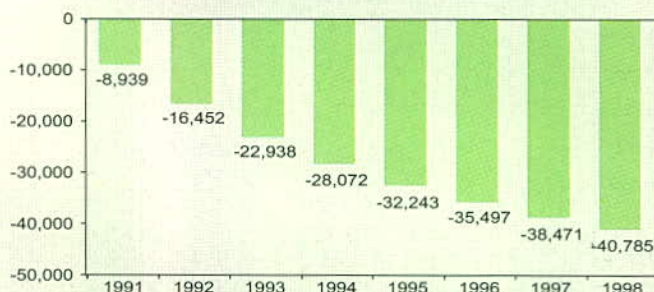
The Federal Government's various programs in the area of Health, Sanitation and Social Assistance have contributed to the reduction of the infant mortality rate in all Brazilian regions.

Among these programs, the following should be noted: Community Health Agents Program; Family Health Program; Reduction of Infant Mortality Project; Women and Children Health Program; National Immunization Program; Nutritional Deficiencies Combat Program; and the extension of basic sanitation.

In related data collected by the Catholic Church's program called Children Pastoral, in the various municipal districts in which they are active, a reduction of about 46% was verified in the infant mortality rate between 1994 and 1998.

In 1999, the Children Pastoral will assist 28,913 needy communities, located in 3,105 Brazilian municipal districts. The monthly average of children ages 6 and below and of families assisted by the Child's Pastoral is approximately of 1.4 million and almost one million, respectively.

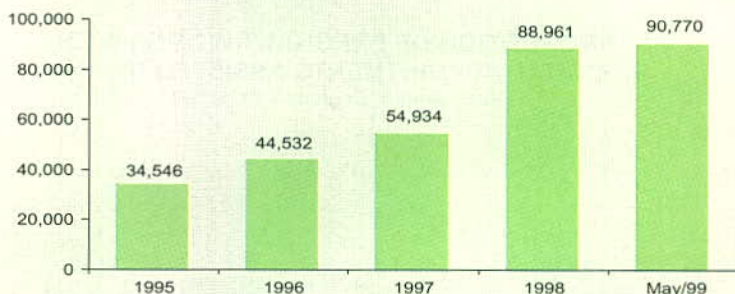
### AVOIDED DEATH OF CHILDREN 12 Mos. & UNDER FOR THE 1991 TO 1998 PERIOD



Source: Celso Simões/IBGE-Census of 1980 and 1991 and Pnads 92 to 95/MS

In the 90s, the Community Health Agents and Family Care Health Programs, among others, saved the lives of about 223,398 children below the age of 12 months. The annual average of prevented deaths rose from 19 thousand in the 1991-1994 period to 37 thousand in the 1995-1998 period, representing an increase of almost 100%.

### COMMUNITY HEALTH AGENTS n° of agents



Source: COSAC/SAS/MS

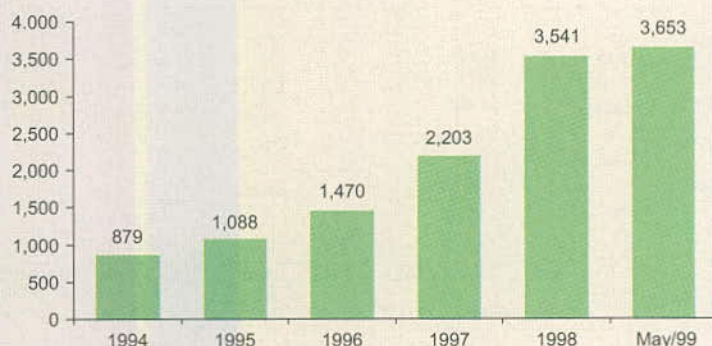
The Community Health Agents (PACS) and Family Health Care (PSF) Programs aim at providing basic outpatient health assistance, therefore promoting preventive health and health education. This significantly contributes not only towards the improvement of health, but also to the quality of life of the general population.

These programs offer closer, more personal assistance to the population, which result in significant progress.

From 1995 to 1999 (May), the number of community agents increased 163%.



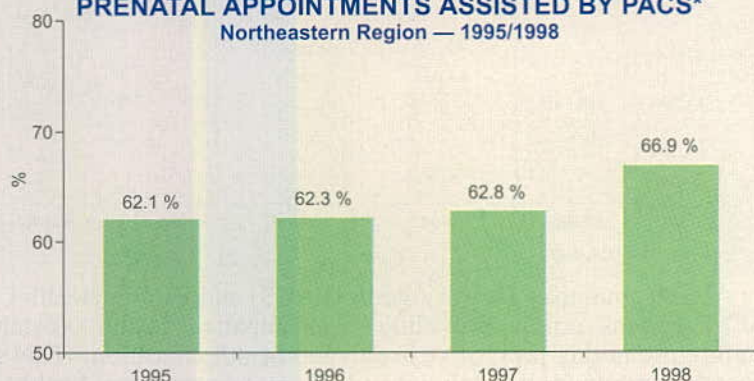
### COMMUNITY HEALTH AGENTS n° of municipalities served



Source: COSAC/SAS/MS

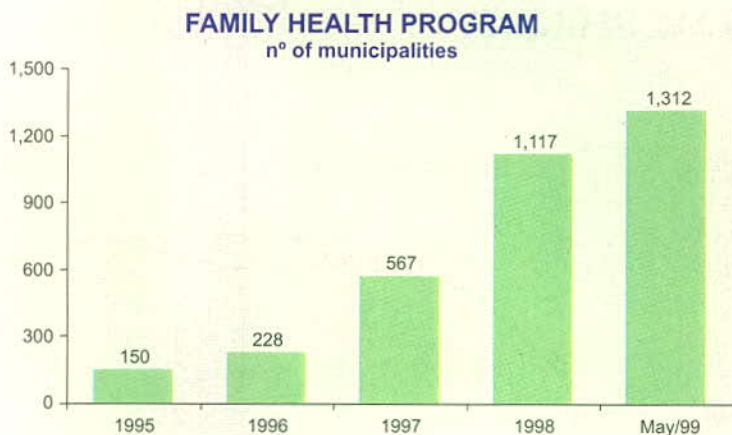
From 1994 to 1999 (May), the number of municipal districts assisted by PACS increased 315%.

### PROPORTION OF PREGNANT WOMEN WITH PRENATAL APPOINTMENTS ASSISTED BY PACS\* Northeastern Region — 1995/1998



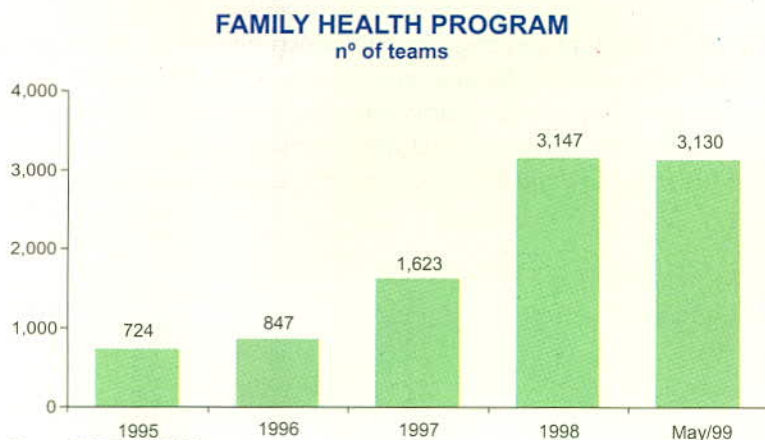
\* Community Health Agents Program  
Source: COAB/SAS/MS

In spite of the existing limitations in terms of health care centers, from 1997 to 1998 there was a significant increase in the proportion of assisted pregnant women.



Source: COSAC/SAS/MS

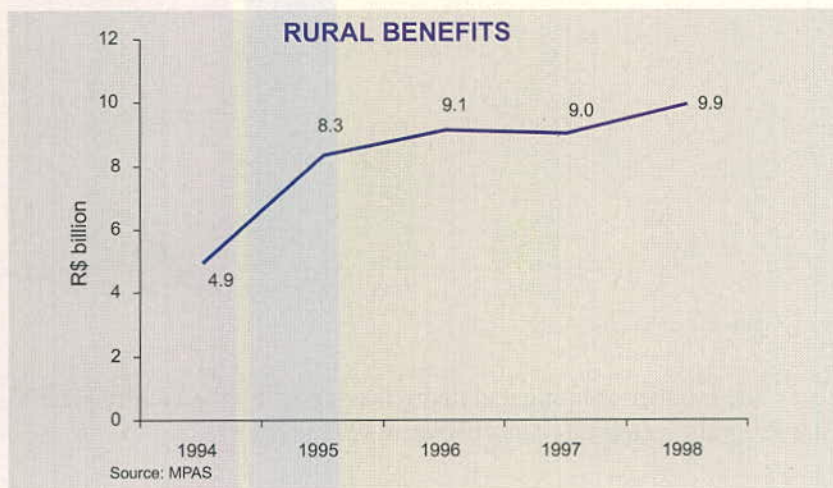
The number of municipal districts covered by the Family Health Care Program increased 645% between 1995 and 1998.



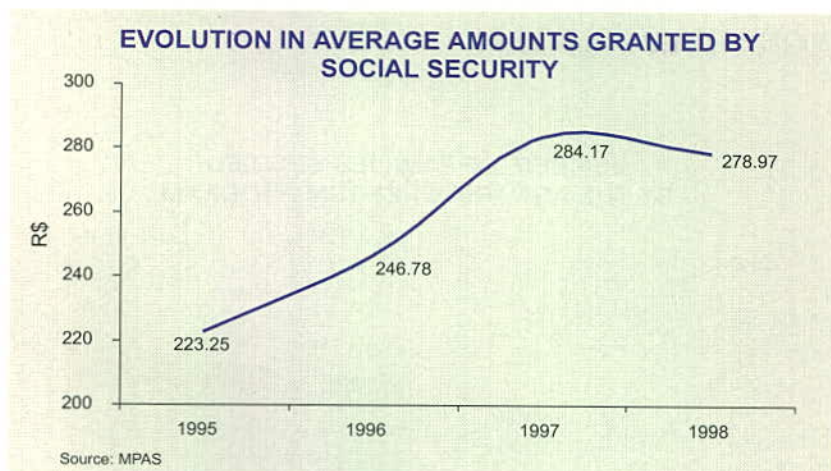
Source: COSAC/SAS/MS

The number Family Health Care Program teams increased 4,3 times in the 1995-1998 period.

## SOCIAL SECURITY

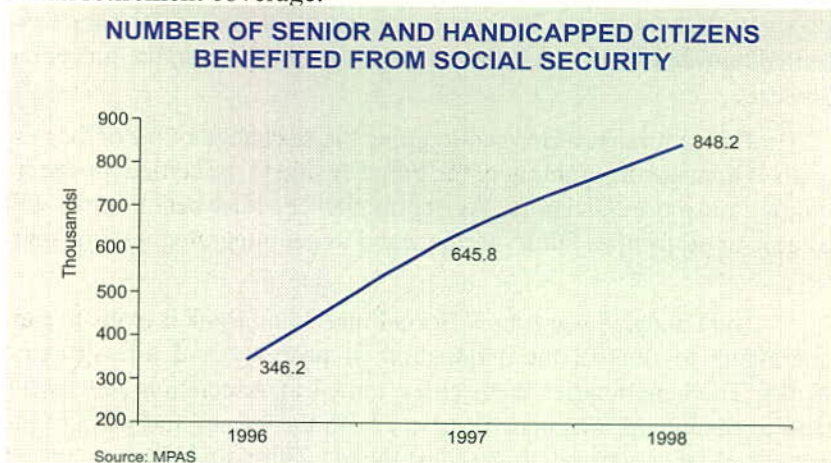


Rural retirement coverage by the Social Security System constitutes a true minimum income program, since benefits are granted without the corresponding social security contribution payment. From 1994 to 1998, the amount of rural retirement practically doubled, currently reaching R\$ 10 billion and benefiting more than 6 million people.



Between 1995 and 1998, the average amount of benefits increased by 25%, which equals a growth of more than 7.5% a year, despite a small reduction of 2% in 1998.

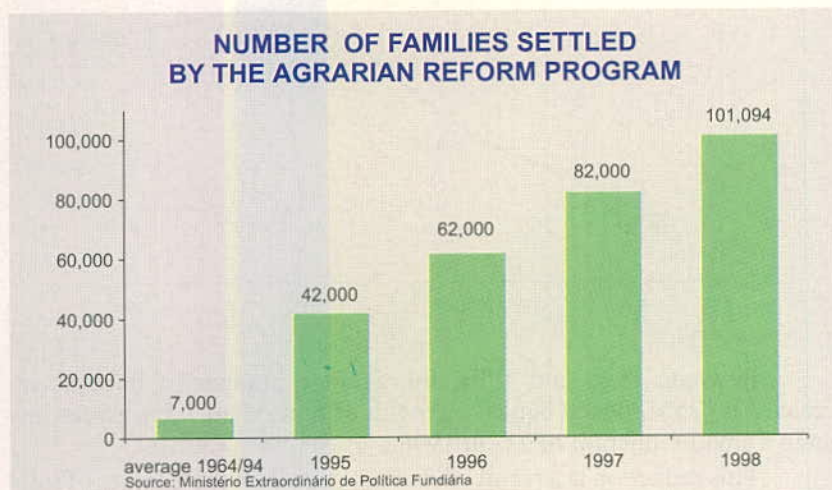
This reduction is a result of the high growth in the number of rural retirement beneficiaries, which have a lower average value compared to urban retirement coverage.



In 1998, almost 850 senior and disabled citizens received one minimum wage per month. The resources involved in the payment of that benefit exceeded R\$ 1.13 billion, a sum corresponding to 6.6 times the amount spent with the same type of benefit in 1996.



## AGRARIAN REFORM



With the Agrarian Reform Program, 287 thousand families were settled between 1995 and 1998 – a larger number than in the preceding 30 years.

The agrarian reform is undergoing major changes. One of the new goals is to make the granting of the property title to the settled producers quickly and more efficiently. As a consequence, those beneficiaries will be able to perform as family farmers and to get integrated into the market.

The Land and Agrarian Reform Fund–Land Bank is ready to start operations to finance the acquisition of property and infrastructure works. The beneficiaries themselves, united in associations, select the land to be bought, negotiate the price with the owner and prepare the project of the activity to be developed. The Land Bank aims at strengthening rural settlements, among other objectives.

PRESIDÊNCIA DA REPÚBLICA  
Secretaria de Estado de Comunicação de Governo

Contributing Entities

Ministério da Fazenda  
Secretaria de Política Econômica  
Banco Central do Brasil  
Ministério do Orçamento e Gestão

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BY THE PRESIDENCY OF THE REPUBLIC

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