



The Presidency of the Republic

6 years of the REAL

Growth and Social Development



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Brazil: President (F.H. Cardoso)

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PRESENTATION

Six years having elapsed since *Plano Real*¹ was launched, the country shows a trend marked by the consolidation of the price-stabilisation process, by the resumption of economic growth and by more solid achievements in the social domain.

THE CONSOLIDATION OF STABILITY

Although *Plano Real* has proven to be more than a stabilisation plan, the success in the struggle against inflation was its first conquest, one that paved the way for progress in other fields. Taking into account the period from July, 1994, to May, 2000, the average rate of inflation, as measured by the Wide Index of Consumer Prices/IPCA, assessed by the Brazilian Institute for Geography and Statistics — IBGE, has been of but 11.4% per annum, which contrasts with the average of 1,280.9% per annum during the five previous years (1988-1993).

The drastic drop of inflation at the beginning of the Plan and its maintenance at very low levels have practically eliminated one of the main factors of income concentration.

The change in the foreign-exchange policy, in January, 1999, represented a challenge to the maintenance of the process of stabilisation. However, the forecasts of a substantial increase in the rate of inflation and of a generalised recession failed to materialise. At the end of that year, inflation, as measured by consumer-price indexes, did not surpass 10%, a most satisfactory result, particularly if one takes into account the magnitude of the foreign-exchange devaluation (of about 45% during the first twelve months after the adoption of the fluctuating rate of exchange) and the simultaneous occurrence of other factors adverse to stabilisation, especially the increase of over 120% in the prices of imported oil. At the same time, instead of recession, we experienced growth in GDP, though modest, 1% according to the latest estimation by IBGE. These data show that Brazil has overcome the

1 Translators note: The *Real Plan*, the economic stabilisation plan launched in 1994.

challenges of foreign-exchange devaluation in a better manner, as compared to other countries, such as Korea, Mexico, The Philippines and Indonesia, where deep recession and/or a steep increase in the rate of inflation occurred.

THE RESUMPTION OF GROWTH

One of the most outstanding achievements of *Plano Real* was to defeat extremely high rates of inflation, and at the same time to ensure significant economic growth during its first four years in force. In fact, from 1994 to 1997, the economy grew at an average annual rate of 3.5%.

The rhythm of growth of the economy decreased as a consequence of the international crises, beyond any doubt amongst the most severe in the second half of the twentieth century, the ones that occurred in 1997 and 1998. Even so, the average growth recorded between 1994 and 1999, of 2.3% of GDP, is significantly higher than the one recorded in the six immediately previous years (1988 to 1993), when GDP expanded, as an average, by only 0.8% per annum.

What is most important, though, is that once the shock waves of the 1997 and 1998 international crises were overcome, growth is back, and on solid grounds. The recovery of the economy consolidated during the first quarter of 2000. From January to April, as compared to the same period last year, industrial production grew by 6.6%, having experienced a vigorous expansion — 19.7% — in the sector of durable goods (automobiles, electric and electronic appliances, etc.). During the same period, a visible decrease in all price indexes was recorded (from January to May the main consumer-price indexes presented the lowest inflation rates since such indexes were established).

One of the propellers of the resumption of economic growth has been the increase in exports, which expanded by 13% in value and by 34% in volume, if compared to the periods before and after the external crises (i.e., the first quarter of 1997 and the first quarter of 2000). The strong expansion in exports of manufactured goods (24% in value and 40% in volume) demonstrates that the foreign-exchange devaluation is producing the outcomes expected. Investments and consumption of the

private sector are also growing, fuelled by a greater supply of credit; by the drop in the interest rate, currently at its lowest since the Real was launched and by more trust in the future.

The resumption of growth has its consequences in the creation of jobs. In April a record was attained: the generation of over 850 thousand new jobs during the last twelve months, a figure above the one recorded in May, 1995, at the peak of *Plano Real*, when the previous record occurred. In this new and promising cycle of job creation, industry is hiring again, thus reinforcing the labour market in the formal sector.

Within this context, the economy should grow by about 4% during 2000, with a consumer-price index considerably lower than the one recorded in 1999. IPCA has been the parameter used for the inflation-target policy, in place after the adoption of the regime of fluctuating rate of exchange. As far as IPCA is concerned, the market projects an inflation very close to the core of the target defined for 2000, i.e., 6%, a rate around which the other consumer-price indexes are expected to remain.

The recovery of the Brazilian economy would not have been possible had it not been for the strong commitment to fiscal austerity (reflected in the growth of the primary surplus from 0% of GDP in 1998 to 3.1% in 1999). Thanks to the firmness of the fiscal policy it was possible to expand the supply of credit within the economy and to reduce the rate of interest. The positive fiscal outcomes were a consequence of the unheard reduction of public expenditure, for a value corresponding to 0.9% of GDP, although there has also been an increase in revenues, corresponding to 0.5% of GDP, between 1999 and 1998.

Economic recovery has been accompanied by two major reforms (the Social Security Reform and the Administrative Reform) and by the Fiscal Accountability Act, the foundations of a new fiscal regime.

The reform of Social Security disarmed a real time bomb, the main factor of fiscal unbalance in Brazil, preventing social-security deficits to proceed in their explosive trend.

In private-sector social security (INSS), the rule for calculating benefits was altered, with the institution of the "social-security factor".

According to the new rule, the benefit to be received becomes a function of the value of contributions paid, of the age at retirement and of the expectation in terms of the duration of the benefit. In other words, actuarial criteria were introduced in the social-security system, in order to render it financially balanced as time goes by, thus making sure there will be funds to pay retirement benefits and pensions in the future. Parallel to the Reform, several steps were taken to increase the amount of people paying social-security contributions. Thus, in addition to increasing revenues, the goal is to ensure a basic social insurance for millions of Brazilians who currently do not count on any type of protection of this nature, particularly self-employed workers and domestic labour.

With the Administrative Reform, a new labour regime was adopted for federal civil servants, except for those belonging to careers typical of the State, that is, those that do not exist in private sector. The labour relationship of workers who join public service after the reform will be governed by private-sector contracts (Consolidation of Labour Legislation — CLT). Thus, the retirement benefits of these workers are subjected to the Private Sector Social Security ceiling. This measure, in addition to fighting the deficit of public-sector social security, helps reducing the inequality between the social-security benefits of private and public-sector workers.

The Fiscal Accountability Act sets limits for personnel-related expenditure, for public debt and for other variables of public finance. It mandates public managers to commit themselves to fiscal targets and to report on them. It establishes harsh rules to prevent election-related expenditure from occurring and it imposes discipline to the management of society resources by Government, to prevent immoderate deficits from recurring. For instance, no ruler may create new expenditure to last for more than two years without indicating the source of revenue or without reducing other existing expenses. The Fiscal Accountability Act, which was supported both by Government and by part of the opposition, represents a new code of conduct for public administrators and represents a turning point in the history of public management in Brazil.

SOCIAL DEVELOPMENT

PROGRAMMES FOR UPROOTING POVERTY AND SOCIAL EXCLUSION

In a country with striking inequalities such as Brazil, programmes for uprooting poverty and social exclusion are high priorities.

In the period from 1990 to 1998, 13 million people crossed the poverty line, thus reducing the percentage of the poor population in the country from 43.8% to 32.7% (the equivalent of 50.1 million inhabitants).

The proportion of households without access to basic State services also reduced significantly from 1992 to 1997: those without appropriate water supply services diminished from 25% to 19%; those without sanitary sewage diminished from 48% to 41%; those without electric power diminished from 12% to 7%, and those without garbage collection diminished from 36% to 26%.

Access to land in Brazil also expanded, as a consequence of the implementation, starting in 1995, of the largest agrarian-reform programme of our days. In six years, 400 thousand families have been settled in an area corresponding to twice the territory of Belgium.

The National Programme for Strengthening Family Agriculture (PRONAF), now managed by the Ministry of Agrarian Development, grants credits with favoured interest rates to small family farmers, and to co-operative organisations and agricultural associations. Loans for covering the cost of harvests and for animal-husbandry activities have a maximum limit of R\$ 5 thousand. From 1995 to 2000, PRONAF has already benefited 1.5 million families, in over 4 thousand municipalities, with total funds of about R\$ 10 billion.

The deep inequalities and the concentration of income are at the root of serious social problems the country still faces, among which highlight criminality and violence. Government endeavours to approve laws that limit trade in weapons and to implement the National Public Security Plan, designed in June, 2000.

This plan, of a most comprehensive scope, encompasses 124 measures, several of which of immediate enforcement. The plan is also to ensure a substantial input of funds to the States and Municipalities,

levels of Government having a direct and relevant role in public-security issues and which in fact operate where problems of this description are more acute. This plan is to increase the co-operation among the different bodies involved in the issue, at all levels.

EDUCATION

Government has defined as a priority in its educational policy the expansion of elementary education. With the establishment of the Fund for the Maintenance and Development of Elementary Education and for the Promotion of the Teaching Career (FUNDEF), the distortion translated into the non-existence of a correspondence between the apportionment of funds and the number of students enrolled has been corrected. The apportionment of revenues between the State and its municipalities became proportional to the number of students enrolled. Furthermore, the Fund has defined a minimum expenditure per student/year, which has much favoured poorer States.

Other important transformations were the concentration of responsibility for elementary education on municipalities and of that for secondary education on the States. According to Programme Cash Direct at School, for instance, schools now receive federal funds directly. This measure has eliminated the political manipulation of budgetary appropriations, allowed communities more control over expenditure and encouraged the creation of Parent and Teacher Associations and School Councils, which now manage the funds in partnership with the school management.

The evolution of indicators on education in Brazil shows highly expressive progress:

- In 1992, 18.2% of children in the age bracket of seven to fourteen were not at school. In 1999, only 4% were not enrolled. The country is very close to providing universal access to elementary education.
- The expansion of elementary education brought about significant growth to the number of enrolments in secondary education: 57.5% from 1994 to 1999.

- The rate of illiteracy of the population above fifteen years of age has reduced from 18.3% to 13.8% from 1990 to 1998.
- The National Programme for School Textbooks has distributed, free of charge, from 1995 to 1999, over 350 million school text books. Only in 1998, around 110 million school text books were distributed to students of elementary and secondary education.
- Programme School TV, established three years ago aimed at providing long-distance training for teachers, accounted for the distribution of a kit (television set, video recorders, tapes and parabolic aerials) to all elementary schools having more than 100 students. Educational programmes reach schools via satellite and cover around one million teachers and 28 million students. Programme School TV currently means much more than the education of teachers, for it operates together with communities, with documentary-film shows open to the population during weekends.
- Programme on Information Technology in Education (PROINFO) accounted for putting in place 30 thousand computers and ancillary equipment in over 2000 schools, thus benefiting around 200 thousand students. By 2001, the target is to put in place 100 thousand computers in six thousand schools.
- The expansion of enrolments in higher education, starting in 1995, was of about 424 thousand. In 1998, there were over 2.1 million students in higher education, a 28% increase vis-à-vis 1994. The number of students in graduate courses has increased from 43 thousand, in 1994, to 53.9 thousand, in 1999. During the same period, the number of Doctor degrees per year has grown from 2.7 thousand to 4.7 thousand, and the number of scholarships granted increased from 5.867 to 8.009.
- The Brazilian research and graduate course system is comparable, in the developing world, only to those of China and India, successful countries in this domain. In 1999, the National Research Council (CNPq) and the Co-Ordination

Office for the Development of Higher-Education Personnel (CAPES) granted 77 thousand scholarships, while in 1951, when CNPq was established, the number of scholarships was of only 70.

HEALTH

The Brazilian health care model is going through deep changes. The main expression of these transformations was the establishment of the Unified Health System (SUS), whose main characteristics are: decentralisation, with a single management at each sphere of Government; the regional character; the participation of society and the exercise of social control by means of collegiate levels of decision making, and the funding by the federal, state and municipality levels.

Likewise, the Basic Care Threshold (PAB) has decentralised services, thus virtually eliminating the possibility of political discrimination and making feasible the control of nepotism and other distorted practises. Federal funds are monthly channelled to municipalities, without the interference of any local authority.

Health plans and insurance schemes are now regulated and the National Supplementary Health Agency was created, aimed at controlling and inspecting the sector.

Another major initiative was the emergence on the Brazilian market of the first generic medicines, in January, 2000. Generic medicines are being sold at prices 30 to 55% below those of their brand-name correspondents, with the same therapeutic properties.

The traditional logic, that used to privilege the treatment of diseases only in hospitals is being increasingly replaced by pre-emptive medicine efforts. The following programmes, either created or expanded since 1995, became instruments of this change:

Community Health Agent Programme: people from the communities themselves are trained to disseminate information on basic health care. Currently these agents serve 65 million citizens.

Family Health Programme: started in 1994, this programme ensures care to around 21 million people. From 328 teams, at its very beginning, it has moved to six thousand, in 1999, operating in all regions

of the country. During the same period, the number of municipalities served increased from only 55 to two thousand. In 1998, the budget for the two programmes (Community Agents and Family Health) was of R\$ 218 million. A year later, it grew to 380 million, with a 74.3% increase. For 2000, there is a forecast of a new increase, this time to R\$ 680 million.

Vaccination Programmes: in a single day, every year, in Brazil, around 20 million children are vaccinated against several diseases, amongst which poliomyelitis. From 1996 to 1999, funds for vaccination campaigns moved from R\$ 145 million to R\$ 270 million, which allows to increase coverage and to use new pre-emptive vaccines against the flu, pneumonia, German measles, measles, hepatitis B, meningitis, diphtheria and tetanus. Nine million people over the age of 65 are vaccinated against the flu every year.

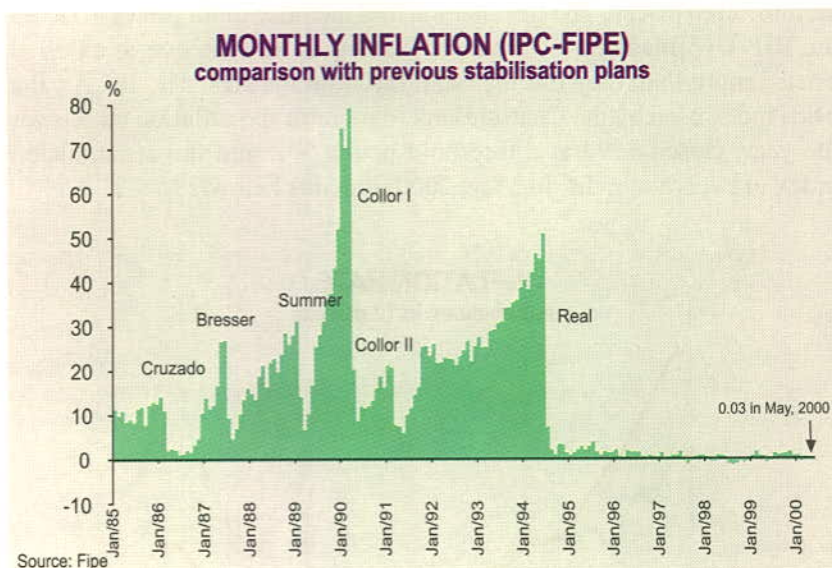
AIDS care: Brazil is singled out by the World Health Organisation as an example, because it maintains one of the best AIDS pre-emption programmes in the world. It is one of the few countries that supply free of charge to infected persons the medicines that delay the progress of HIV. The cost of the programme is high, and has reached R\$ 487 million in 1999.

Programme for the Reduction of Infantile Mortality: created in 1995, this programme concentrates actions geared to immunisation, sanitation, nutrition, health care for women and children and the implementation of Programmes Community Agents and Family Health. As a result, from 1990 to 1999, the rate of infantile mortality declined from 50.9 to 36.1 per thousand born alive: a 29.1% drop in nine years.

Six years after launching *Plano Real*, Brazil is a better country. It associates sustainable economic growth to social development based upon effective programmes in such areas as education and health. There is still much to be done to build the Brazil of our dreams, with the humane face of more social justice and of a better income distribution. However, progress is already impressive and encouraging. The economy is more solid and dynamic. Society is more demanding and participatory. The State is more entrepreneurial and efficient. Brazil follows the right path.

ECONOMY

I – INFLATION

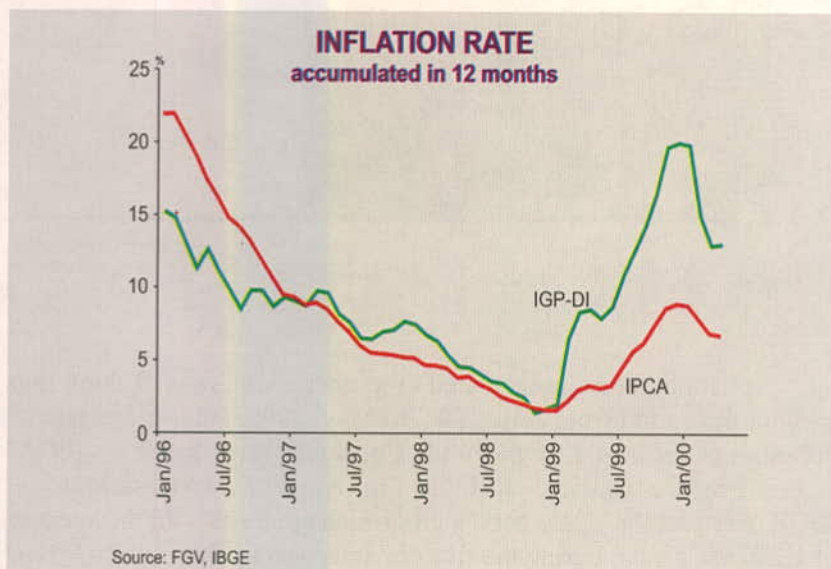


Inflation had an accentuated drop after *Plano Real*. Taking into account the period from July, 1994, to May, 2000, the average rate of inflation, as measured by the Wide Consumer-Price Index — IPCA, assessed by the Brazilian Institute for Geography and Statistics — IBGE, was of only 11.4% per annum, which contrasts with the average of 1,280.9% a year, during the five previous years (1988-1993).

The continuity of economic stabilisation was ensured in 1999, in spite of the foreign-exchange crisis that befell the country at the beginning of that year, within the framework of the Asian and Russian crises.

Measures adopted by Government aimed at the control of inflation reduced the likelihood of a scenario of deepened recession and unemployment. In addition to the devaluation of the currency, other factors put pressure on prices, such as the increase in international oil prices, the adjustment of public tariffs and a period between harvests under the pressure of draught. However, these factors did not produce a major acceleration of consumer prices, which remained within the inflation targets defined by Government.

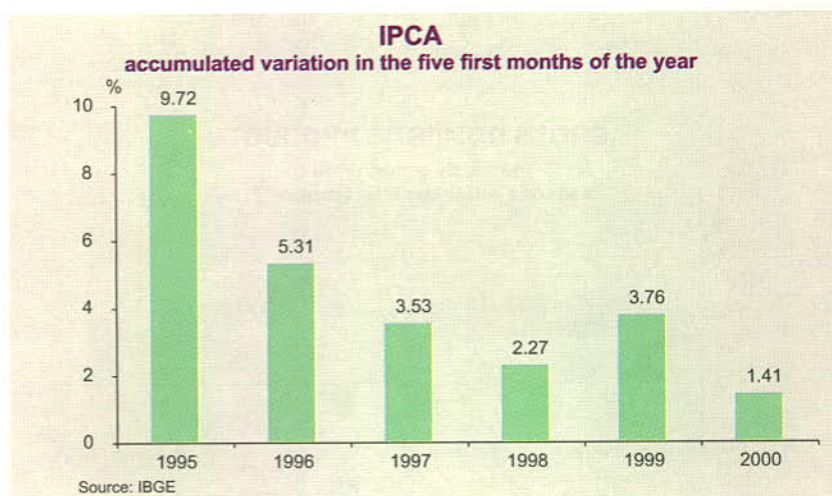
The transfer of the currency devaluation to price was small and restricted to goods transacted with foreign countries and to some administered prices. The devaluation and the raise in oil prices affected the IGP-DI¹ (made up of products that are more sensitive to external prices) more than they did the retail inflation indexes. The IPCA², the price index used by the Central Bank to monitor the inflation targets for the year, closed 1999 at a threshold below 9%, and the accumulated index in twelve months, in May, 2000, remains below 7%.



In the first months of 2000, the rate of inflation, as measured by IPCA, presents the biggest drop since that index was created. This behaviour indicates that the impact of the foreign-exchange variation has already been overcome, and that inflation resumes its steady and persistent downward trend, as registered since *Plano Real* was

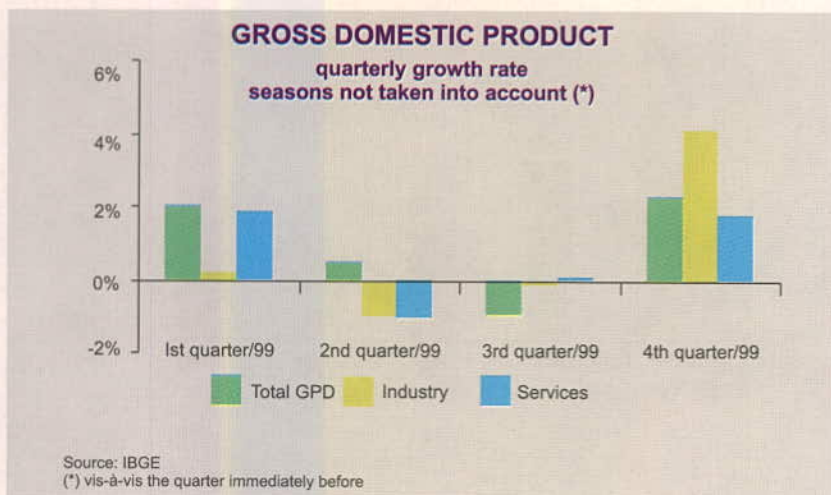
- 1 General Price Index — Internal Availability.
- 2 Wide Consumer — Price Index.

launched. This trend confirms the suitability of the policy in place since early 1999.



II – ECONOMIC ACTIVITY

GROWTH

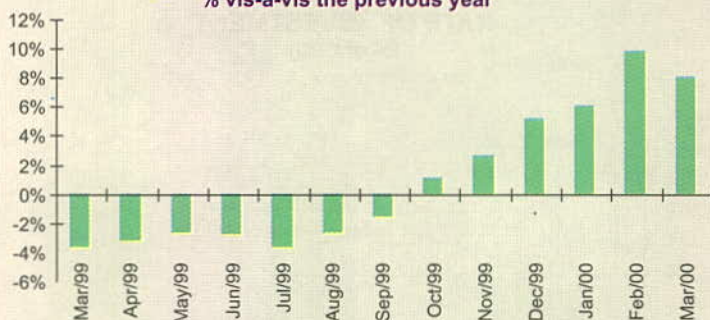


The behaviour of the economy in 1999 was marked both by the reduced retraction of economic activity (less than expected after the currency devaluation) and by the swift recovery of the physical industrial production in the second half of the year. In December, 1999, industry already showed a significant 8.8% growth, as compared with December, 1998.

Despite the external crises of the last years, GDP has maintained a positive trend. From 1994 to 1999, GDP increased by 11.8% in real terms, which corresponds to an annual average growth rate of 2.3%. In contrast, in the six years prior to *Plano Real* (1988 a 1993), the annual average growth was of only 0.8%.

INDUSTRIAL PRODUCTION

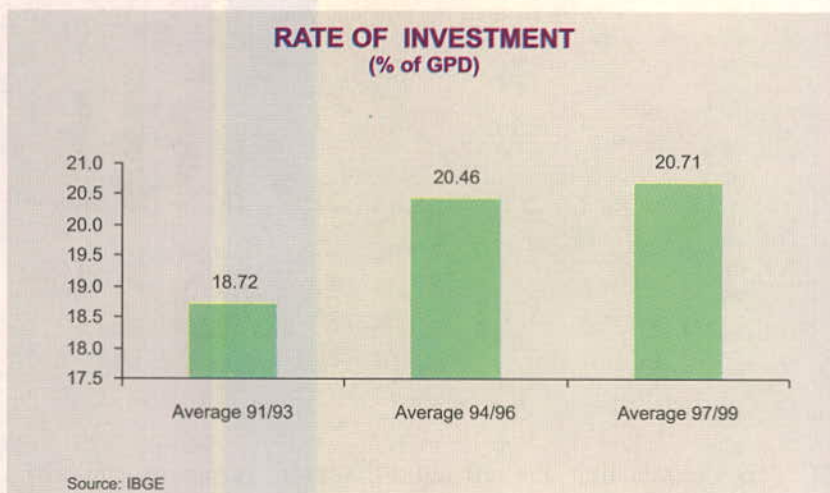
quarterly mobile average
% vis-à-vis the previous year



Source: IBGE

By eliminating the effects of season variations, industrial production grew by 4% in the fourth quarter, in 1999, vis-à-vis the third quarter. The increase in the exports of manufactured goods contributed much for this recovery. In the first quarter of 2000, industrial production reached an accumulated growth of 6.6% as compared to the same period last year. This positive trend occurs in all branches of industry. Still in the first third of 2000, the increase in the production of durable consumer goods highlights, 19.7%, as well as that of intermediate goods, 7.9%.

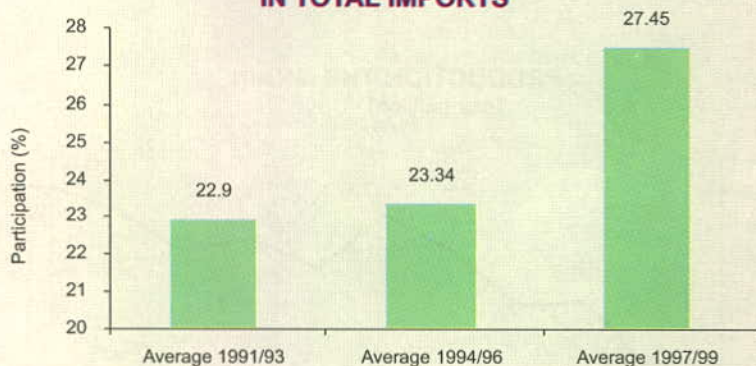
INVESTMENT



A new cycle of investments is in course within the Brazilian economy. This cycle is primarily anchored on large projects in the automobile, steel, mining and paper-and-cellulose industries, as well as on the widening of the physical infra-structure. This fact can be seen by the increase in the rate of investments as a proportion of GDP, which has surpassed the 18.7% average in the period 1991/1993, moving to 20.7% in the period 1997/1999. The raise in the rate of investment of the economy, associated to the broadening of the horizon of entrepreneurial planning brought about by stabilisation, contributes to the sustainability of the growth of real product.

The investment indicators show consistent signs of growth in the last months. The production of capital goods highlights, having grown by 6% in the first third of 2000 as compared to the same period in 1999. In 1999, the total disbursement of resources of the national Bank for Economic and Social Development (BNDS) to the transformation industry reached the highest volume in the last two years. The perspective indicates an even bigger increase this year.

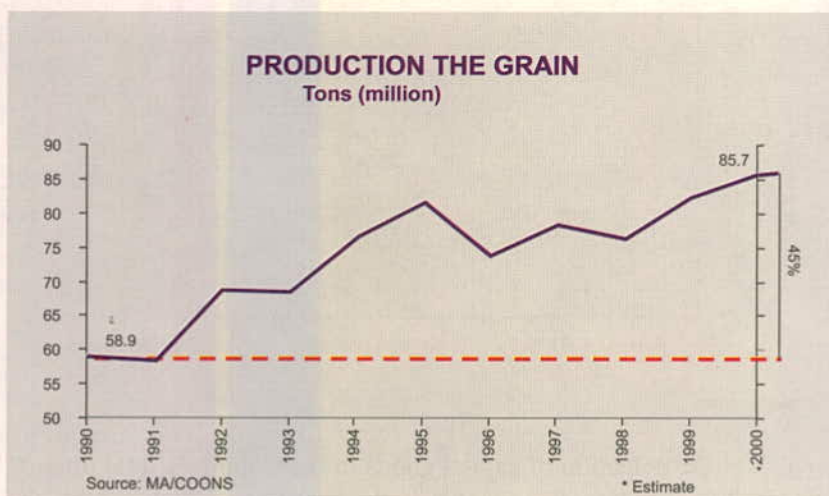
PARTICIPATION OF CAPITAL GOODS IN TOTAL IMPORTS



Source: MDIC

The participation of capital goods in the Country's total imports increased in an impressive manner in the last years, which reflects the modernisation of the productive system and consequently the increase of productivity

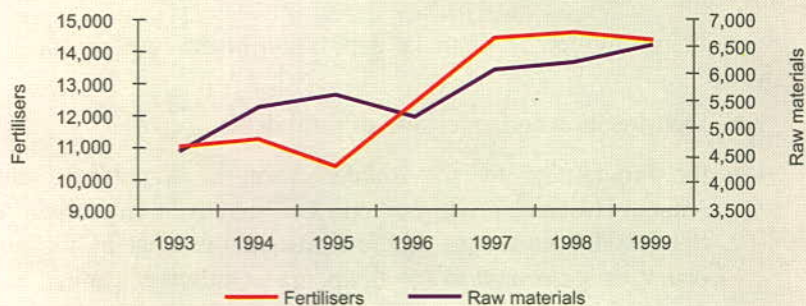
AGRICULTURE



Brazil entered year 2000 with a record in the grain production with 85.7 million tons, which represents a 45% increase vis-à-vis the harvests in the early 1990s which were 58.9 million tons.

The growth of Brazilian agriculture starting in 1990 was based particularly upon considerable productivity gains, especially in the grain sector. The average productivity of corn grew by 45%; that of rice by 74%; that of beans by 36%; that of soybeans by 23%, and that of wheat by 10%.

CONSUMPTION OF FERTILISERS AND RAW MATERIALS in thousand tons



There is an increasing technological progress in Brazilian agriculture. An important indicator is that of the consumption of fertilisers, which evolved from 11.2 million tons in 1994 to 14.3 million tons in 1999. Following this agricultural-development trend, the consumption of nutrients and of raw materials has also shown consistent growth since *Plano Real* was launched.

Main Agricultural Policy Measures

The priority attributed to agriculture after *Plano Real* may be evaluated by a set of measures, amongst which the following are worth highlighting:

a) the promotion of financial depuration of the rural sector, by means of:

- securitisation and extension of rural debts;
- the Programme for the Reinforcement of Agricultural and Animal-Husbandry Production Co-operative Organisations (RECOOP), geared to the re-financing of debts of the co-operative sector and to the financing of turnover capital and investments;

b) the reduction of the "Brazil cost", emphasizing:

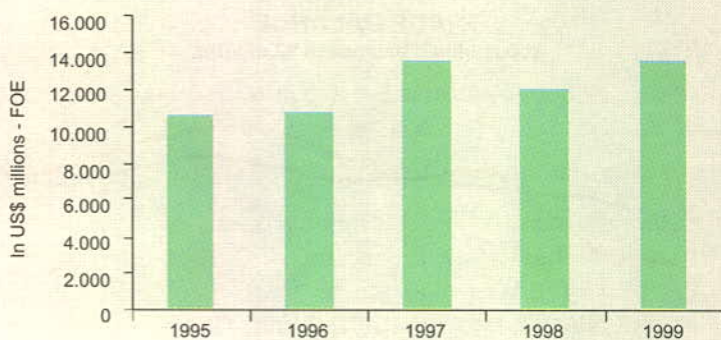
- the previous establishment of financial charges for rural credit, replacing the referential rate;
- the unburdening of the Tax on the Circulation of Merchandises and Services (ICMS) in exports of rural products, which increases the competitiveness of the national production.

c) priority for small properties

The Federal Government will assign funds of about R\$ 11.5 billion to finance the 2000/2001 harvest, which represents a 36% increase vis-à-vis the R\$ 8.3 billion scheduled for the previous harvest. It is worth mentioning that the programme for the recovery of pastures will count on R\$ 400 million per year. In order to support the development of different sectors of agriculture, the Agricultural Plan contemplates new programmes, covering the whole country, such as programmes geared to fruit plantations, water and bee culture. To complement the goals of incentive to agriculture, the Brazilian Government has increased the limit of financing for rural credit, and has improved the conditions for the access to resources by farmers. To support the marketing of harvests, instruments such as Option Contracts, NPR, the Award for Production Transportation (PEP), Loans and Acquisitions of the Federal Government (EDF and AGF).

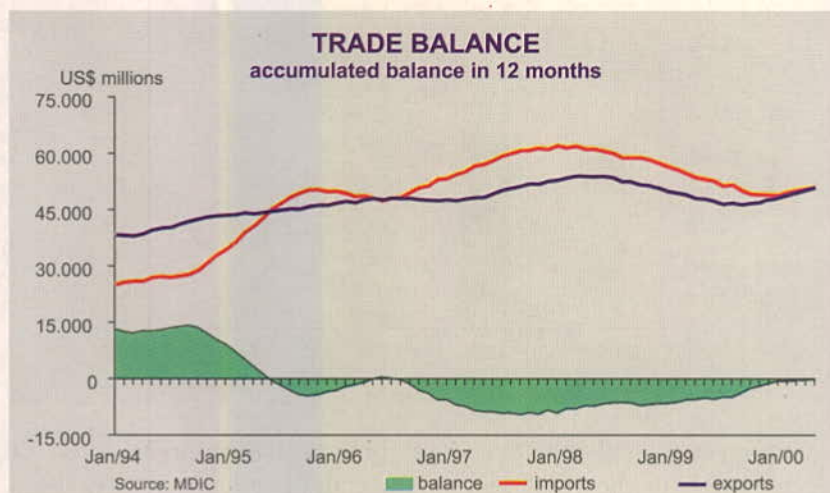
AGRICULTURAL TRADE BALANCE

Trade balance of agribusiness



Governmental initiatives have promoted appropriate levels of capitalisation in the rural sector. Thus, these initiatives have been decisive for the consistent increase of agricultural production and of the sector's commercial surplus. This surplus grew from US\$ 10.3 billion, in 1992, to US\$ 13.4 billion in 1999.

III – THE EXTERNAL SECTOR



By allowing the free fluctuation of the Real, the change in the foreign-exchange regime has brought about a deep change in external transactions, and has mitigated restrictions on the Country's balance of payments. The most immediate effect of the currency devaluation took place on the import side, which dropped by 14.8% in 1999, as compared to 1998, while exports, instead of increasing, had a 6% reduction.

With this performance, the trade balance started recovering from the deficits recorded in the last years, and went from a negative balance of US\$ 6.6 billion in 1998 to a smaller negative balance of US\$ 1.2 billion, in 1999. Already in early 2000, however, the trade balance reached positive results, thus confirming the change in the trend of foreign trade.

The slow reaction of the trade balance after the devaluation was mainly due to the behaviour of external prices. On the one hand, there was a 15% drop in the prices of agricultural and mineral primary products, which account for over one third of Brazilian exports; on the other, there was a steep increase in oil prices, the main item of Brazilian imports.

EXPORTS AND EXTERNAL CRISES

PERCENTILE VARIATION OF EXPORTS first quarter of 1997 and first quarter of 2000

Categories	Index		
	Value	Price	Amount
Total Exports	13,10	-16,30	34,50
Basic	-11,30	-28,40	23,30
Semi-manufactured	13,50	-13,60	30,20
Manufactured	23,70	-12,00	39,60

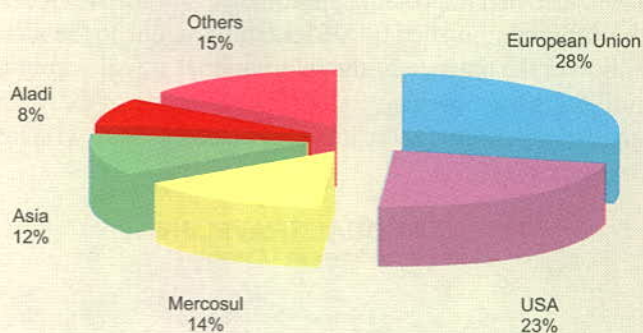
In spite of this adverse environment, the comparison between the situations before and after the external crises (first quarter of 1997 vis-à-vis the first quarter of 2000) leads to the conclusion that there was a 13% increase in the value of total exports, due to an expansion of circa 34% in volume. It is worth highlighting the growth in the manufacture sector, nearly 40% in volume and 24% in value, despite a 12% reduction in prices.

After a 7% decrease in 1999, the external sales of manufactured goods grew by 25% in the first four months of 2000, and increased their participation in the total exports. Thus, the growth of exports is taking place in sectors that produce goods with greater added value. This fact, associated with the substitution of imports, contributes to the resumption of industrial production and of employment, which show remarkable growth.

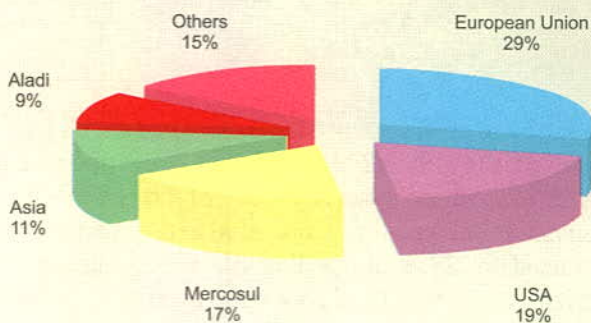


It is important to highlight that the growth of total exports and of manufactured-good exports, in particular, also occurs as a consequence of the opening of new markets, which allows Brazil to overcome the retraction of Latin-American countries, traditional markets for those Brazilian products. The participation of the United States in Brazilian external sales changed from 19% to 23%, from 1998 to 1999, which mitigated the reduction in sales to MERCOSUL and to ALADI member countries.

DESTINATION MARKETS OF EXPORTS - 1999

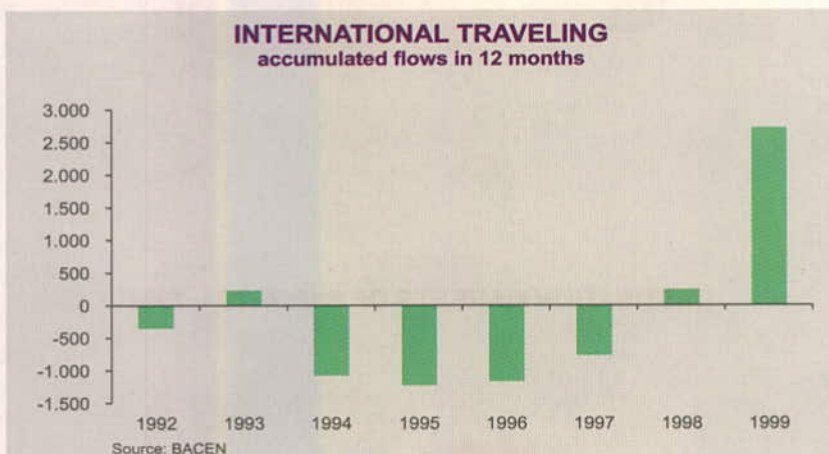


DESTINATION MARKETS OF EXPORTS - 1998



CURRENT TRANSACTIONS

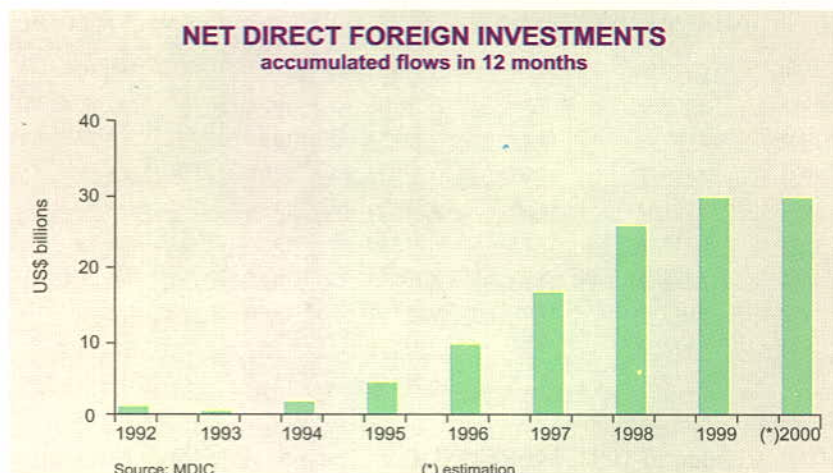
The change in the foreign exchange situation that took place in January, 1999, also had important consequences for the service balance, in which the deficit diminished by US\$ 3.6 billion, due to the increase of US\$ 2.7 billion in the balance of the international-travel account and of US\$ 455 million in the freight account. The reduction of these expenses was enough to compensate for the increase in expenditure with interests, which increased by 27%.



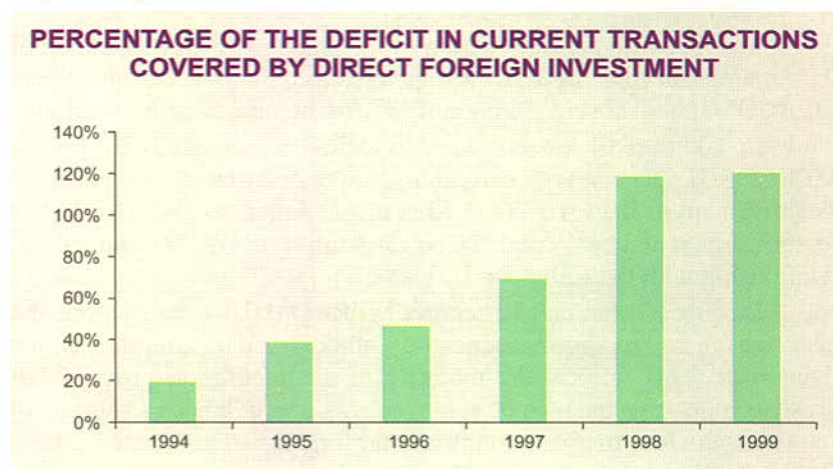
In 1999, the balance in current transactions had a US\$ 24.4 billion deficit, as a result of: the US\$ 1.2 billion deficit in the trade balance; of the deficit of US\$ 25.2 billion in services; and of the positive balance of US\$ 2 billion in unilateral transfers. Compared to the previous year, this deficit was reduced by 27%. Regarding the GDP, measured in US dollars, the deficit remained a little above the level of in 1998 (4.39% against 4.33%), due to the statistical effect of the smaller amount of GDP in US\$, after the currency devaluation. However, the accumulated results for the months ending in April, 2000, this ratio already presents a decrease to 4.06%.

As a result of the resumption of growth and of the success of the economic policy, direct foreign investments keep on flowing in, in expressive volumes, towards the private sector, even with the reduction in the number of privatisation actions. In 1999, circa US\$ 30 billion

entered Brazil, which corresponded to fifteen times the value for 1994, when only US\$ 2 billion entered the Brazilian economy. Within a five-year period (1995-1999), over US\$ 80 billion entered the economy, out of which circa US\$ 23 billion within the programme of privatisation.



The flow of direct investments has been an important source of financing for the deficit in current transactions, which renders the balance of payments less dependent upon short-term capital. In 1999, direct investments surpassed by 20% the value of the deficit in current transactions.



MERCOSUL

TRADE BRAZIL — MERCOSUL

YEAR	EXPORTS (x) US MILLIONS	SHARE %	IMPORTS (m) US MILLIONS	SHARE %	BALANCE (X-M) US MILLION
1990	1,320.24	4.20	2,319.55	11.23	-999.30
1991	2,309.35	7.30	2,268.36	10.78	40.98
1992	4,097.49	11.45	2,228.56	10.84	1,868.90
1993	5,386.90	13.97	3,378.25	13.38	2,008.65
1994	5,921.47	13.60	4,583.27	13.86	1,338.20
1995	6,153.76	13.23	6,843.92	13.70	-690.15
1996	7,305.28	15.30	8,301.54	15.56	-996.26
1997	9,046.60	17.07	9,517.01	15.90	470.40
1998	8,878.23	17.36	9,427.70	16.34	-549.46
1999	6,777.87	14.12	6,718.90	13.65	58.96

Source: MDIC/DECEX/GEREST

Created in 1991, MERCOSUL was responsible for substantially raising the levels of trade among Brazil, Argentina, Paraguay and Uruguay. In seven years, commercial flows multiplied by four. They moved from circa US\$ 4 billion in 1991 to US\$ 18 billion in 1998. During that last year, the other MERCOSUL countries absorbed 17% of the total Brazilian exports, a level very close to that of the United States (19%), and significantly above the 4.2% recorded in 1990.

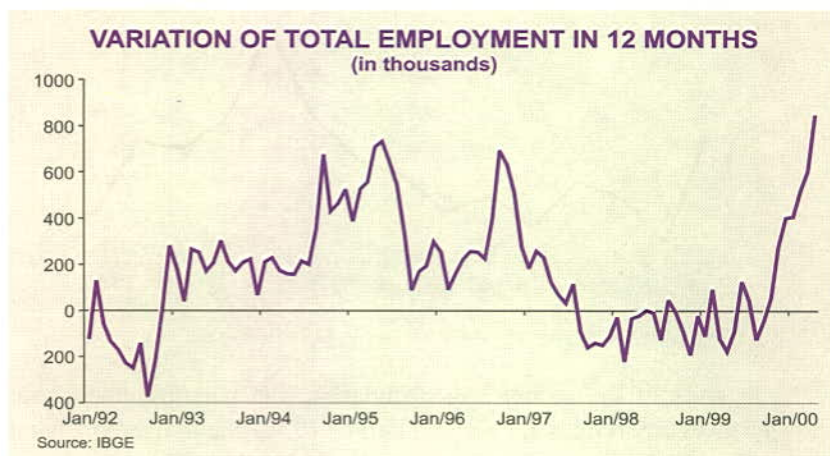
In 1999, with the devaluation of the real and the 3% retraction of the Argentinean GDP, trade in the region reduced by 30%. In spite of that, MERCOSUL still absorbs important 14% of the total Brazilian exports.

In addition to the commercial gains it generated for Brazil, MERCOSUL increases our bargaining power in the negotiations for the establishment of the Free Trade Area of the Americas (FTAA), in our relationship with the World Trade Organisation (WTO) and in our relationship with the European Union (EU).

Despite commercial difficulties MERCOSUL has faced along the last two years, it already concretely indicates a resumption in its dynamism. This reflects the maturity of an integration process that presents a positive balance of achievements and indicates a promising future for the four member countries and for the two associated States, Bolivia and Chile.

IV – EMPLOYMENT AND SALARIES

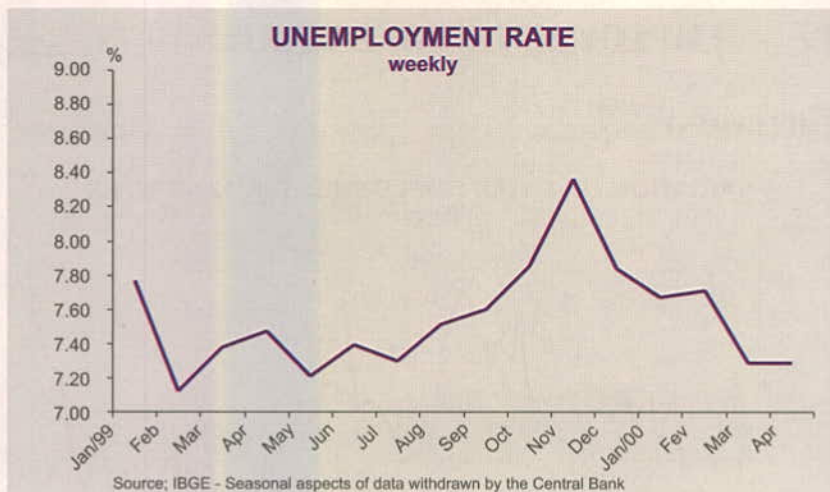
EMPLOYMENT



The behaviour of employment in 1999 surpassed the pessimistic expectations of the beginning of the year, deriving from the change in the foreign-exchange regime. Starting from the second half of that year, the level of employment indicated a reversion in the drop recorded in the previous years, a process that ended up by showing a vigorous increase at the end of the year. This increase was maintained in a significant manner in 2000.

After closing 1999 with the addition of 418 thousand jobs, in the six-month period that ended in April, 2000, there was an increase of 864 thousand jobs as compared to the same month in 1999. This fact represents the highest level of job creation after *Plano Real* was launched, and it marks a new period, in which job generation occurs within a framework of price stability and fluctuating rate of exchange.

It is worth highlighting, regarding this period, the contribution of the industry to the broadening of the job supply. With the resumption of production, both for domestic consumption and for export, industry created 155 thousand new jobs in the twelve-month period that ended in April, which confirms the positive and growing trend initiated in November, 1999.



In spite of the increase in occupation, the unemployment rate shows a growing trend in the second half of 1999, due to the expansion of the Economically Active Population (EAP). This behaviour is a natural consequence of the recovery of the economy, a moment in which EAP typically increases below the supply of vacancies. However, the consistency in the raise of occupation changed the trend of the unemployment rate since the end of 1999. Such rate started declining in all sectors of activity and in all regions of Brazil. For example, in April, 2000, the rate, not seasonally adjusted, was of 7.31% as compared to 7.49% in the same month in 1999.

SALARIES

EVOLUTION OF THE BASIC BASKET AND OF MINIMUM WAGES



The average real income presented a 5.4% drop in 1999, due to the currency devaluation, to the upward trend in international oil prices and to the readjustment of public tariffs.

However, the effort Government applied to maintain price stability was fundamental to prevent the cost of the basic basket from increasing too much. The positive behaviour of the basket, associated to the annual readjustments of minimum wages above inflation, have been gradually raising the purchasing power of lower-income wage earners. While in May, 1994, a minimal wage would buy 0.69 of the basic basket, in May, 2000, a minimal wage bought 1.15 basket, that is, there has been a 67% real increase.

V – THE FISCAL POLICY AND STRUCTURAL REFORMS

1 – Introduction

The Fiscal Stabilisation Programme, initially proposed in October, 1998, represented a landmark in the process of transformation of the Brazilian fiscal regime. The programme is made up of two sets of initiatives: (i) structural and institutional measures, aimed at promoting the definitive fiscal equilibrium of public accounts, in order to allow the co-existence of sustainable growth and economic stabilisation; and (ii) a short-term fiscal programme aimed at obtaining increasing primary surpluses enough to stabilise, at the end of 1999, the ratio debt/GDP at the level of 46.9%.

The Federal Government has been successful in implementing these two sets of measures. The fiscal results of 1999 and the ones already achieved in 2000 surpass by far those of past periods. Furthermore, there have been several institutional improvements.

2 – Fiscal recovery

Along 1999, the Brazilian Government has unmistakably proven its commitment to fiscal austerity. The replacement of a vision that privileged a gradual approach in the treatment of the fiscal issue by a more solid commitment to the generation of expressive surpluses was extremely successful. All quarterly targets have been met. The consolidated outcome of the public sector evolved from 0% of GDP in 1998 to a primary surplus of 3.1% of GDP in 1999.

Two aspects must be taken into account regarding fiscal recovery. Firstly, within the Federal Government, the reduction of expenses was essential for the results achieved, although a portion of the adjustment derived from an increase in revenues (partly extraordinary). While revenues increased by 0.5% of GDP in 1998, expenditure diminished by 0.9% of GDP in the same period. This result is quite demonstrative, if one takes into consideration the rigidity of public-sector expenses. In addition, it demonstrates, once more, the commitment to fiscal austerity.

Secondly, it is important to highlight that the adjustment was applied at all levels of Government. Not only the Central Government had a substantial improvement in its accounts, but also state-owned enterprises, the States and municipalities recorded very positive developments. As to the States and municipalities, the improvement is to a large extent a consequence of contracts for the re-financing of State debts vis-à-vis the Union, which were followed by several institutional changes aimed at restricting additional indebtedness by those Units of the Federation.

The remarkable result of 1999 has been maintained throughout 2000. In the first quarter, the primary result of the public sector was of R\$ 13.6 billion, or 3.3% of GDP. In contrast, in 1999 and 1998, those results were respectively R\$ 9.7 billion and R\$ 3.1 billion for the same period.

The nominal result of the public sector also starts indicating improvement. With the end of the effect of the devaluation of the currency and the reduction of the interest rate (1999), the consolidated nominal deficit of the public sector should reduce, from the threshold of 9.5% of GDP, in 1999, to a level between 3.5% and 4% of GDP, in 2000.

3 - Structural changes

Achievements worth highlighting include the developments intervened in the reform of social security. Two bills were approved by the National Congress in late 1999 and early 2000, aimed at allowing the reduction of the deficit of the social-security system. The first one relates to Law N° 9.876, of November, 1999, which alters the rule for calculating benefits within the General Regime of Social Security (RGPS), and created the social-security factor. The new rule makes the benefit to be received dependent upon the amount of contributions paid, upon the age at the moment of retirement and of the expectation of duration of said benefit. Thus, actuarial criteria have been introduced in the social-security system, which ensures the stabilisation, in the medium run, of the deficit of the general regime of the National Institute for Social Security — INSS at a level slightly above 1% of GDP. It is important to recall that, without this change, the trend of this deficit would be explosive.

The second bill approved has to do with the adoption of a new labour regime for federal civil servants. According to the new regime, employees admitted to the federal civil service will have their labour relationship governed by private-sector contracts, in accordance with the Consolidation of Labour Legislation (CLT). The major difference is that, according to the CLT, social-security obligations are limited to the National Institute of Social Security — INSS “ceiling”, while in public service they were previously linked to the full salary at the moment of retirement.

With these changes, Social Security long-term obligations pertaining to the payment of benefits will be reduced. Social Security is the main source of fiscal unbalance in Brazil, and the Federal Government is committed to the solution of this problem.

Another highly important progress is the approval of the Fiscal Accountability Act (LRF), which represents a landmark for the change of fiscal management in the Country. LRF is a true new code of conduct for public administrators, for it sets forth principles, norms and limits that will allow the implementation of the culture of accountable fiscal management in the Country. The new act incorporates prudence, reporting and transparency in the management of public funds, at the three levels of Government and within the three branches of power. It is, therefore, a key instrument for the sustainability of the long-term fiscal adjustment.

The LRF also establishes limits for personnel-related expenditure, for public debt, and determines that fiscal targets are to be established. No ruler will be able to create new continued expense (for over two years) without indicating the source of revenue or without reducing other existing expenses. In addition, the act defines other mechanisms for the control of public finance in election years. Another important aspect is the prohibition of the re-financing of debts between to units of the Federation. Thus, each unit of the Federation will have to effectively maintain an accountable fiscal behaviour.

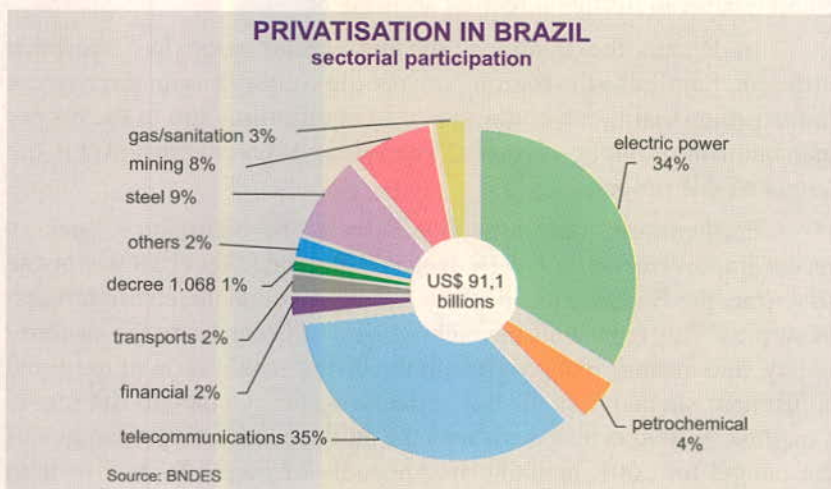
In order to render concrete the adjustment of public accounts, several countries have resorted to changes in their institutional frameworks. Rules, transparency, targets and limits set forth in specific legislation, all these have proven to be powerful allies in the quest for fiscal equilibrium. Whether by means of collective or individual initiatives, the fact is that all

these movements tend to limit the ability of bodies or spheres within the public sector to increase their indebtedness, which used to transfer to coming generations the burden of adjustment.

In Brazil, the treatment of this crucial issue has not been different. Parallel to the reform process, the country has made progress in institutionalising the commitment to equilibrium and to the proper management of public accounts. The Fiscal Accountability Act is the height of this process.

Furthermore, other aspects deserve to be highlighted, such as recent improvements in the Budgetary Guideline Act (LDO). For the first time, the Budgetary Guideline Act approved included the forecast of surplus. This represents the commitment of Congress to the austerity policy, and means great progress in the institutionalisation of the fiscal adjustment. In addition, the bill of the Budgetary Guideline Act sent to Congress in 2000, which deals with the guidelines for the preparation of the budget for 2001, contains an Appendix of Fiscal Targets with an analysis of past targets. More importantly, this Appendix presents, as required by the Budgetary Guideline Act, a definition of fiscal targets for the three subsequent years. This represents progress in terms of fiscal forecast, programming and transparency.

PRIVATISATION



The National De-Statistation Programme — PND was responsible, in the period from 1991 to May, 2000, for the privatisation of 65 enterprises and State federal equity participation cases, in the following domains: electricity, petrochemicals, mining, port exploitation, financial, information technology and railway grids of the Federal Railway Network — RFFSA.

Until May, 2000, the privatisation programme (including the PND, the former state telecommunication sector and privatization at the state level) produced total revenues of US\$ 91.1 billion, including debts transferred.

THE ROLE OF THE STATE IN PRIVATISATION AND REGULATORY AGENCIES

Pursuant the world-wide trend and changes required by Brazilian society, the modern State ceases being the direct responsible party for economic development via the production of goods and services, in order to reinforce its position as the promoter and regulator of this development. With the privatisation programme, the Brazilian State reduced its role as executor and as direct provider of services. Within this new perspective, it has reinforced its regulatory and coordinating functions, particularly at the federal level. By creating a regulatory agency, the Government determines that such agency will establish several criteria for the improvement of service delivery and assistance to the public by privatised enterprises or concessionaires, such as an increase in the supply of such services, and standards of efficiency and transparency in the conduction of their activities.

Along this line, Government has created, since *Plano Real* was launched, the following regulatory agencies:

- The National Agency for Telecommunications (ANATEL);
- The National Agency for Electric Power (ANEEL);
- The National Oil Agency (ANP);
- The National Agency for Sanitary Surveillance (ANVS); and
- The National Agency for Supplementary Health (ANSS).

Although each agency has its own legislation, discussed with the central areas of Government, and also in the light of decisions by the corresponding ministries, all of them fit the overall approach of a modern State. In order to improve its functions even more, there is a bill currently under scrutiny, meant to define what is a Regulatory Agency and to apply to all of them the same type of rules for operation and the same limits to their operational autonomy and flexibility, as allowed by the Constitution.

Continuing the Governmental effort, ten more regulatory agencies will be created by the present Government, among which the National Agency for Water, the National Mail Agency, the National Transport Agency, the National Agency for Complementary Social-Security and the National Agency for Civil Aviation.

With the creation of these agencies, which will be added to the already established large institutions of this sort, there will be a clear,

defined and significant mission, operating based upon a differentiated administration. It is the shaping of the regulatory State to replace the entrepreneur State.

THE DEFENCE OF COMPETITION

In Brazil, the State is increasingly performing a regulatory role, which is visible in the battle against abuse of economic power and in the defence of competition. Such activities befall the Brazilian System for the Defence of Competition (SBDC), made up of three organisations: the Secretariat for Economic Follow-up, of the Ministry of Finance; the Secretariat for Economic Law, of the Ministry of Justice; and the Administrative Council for Economic Defence (CADE).

Through this system, the Public Power has set forth guidelines to regulate market relations and to promote the defence of competition.

This Government action became essential, as a function both of the privatisation process and of the growing number of mergers and associations among enterprises formerly competing with each other.

In 1999, CADE examined 218 cases of concentration, which represents a 16% increase as compared to 1998; 541% as compared to 1997; and 891% as compared to 1996. The increasing action of Government in the area of the defence of competition shows the growing ability of the Brazilian State to respond to the challenges of modernisation, of technological progress and of globalisation.

Cases examined by CADE include the privatisation of the Telebrás System and the judgement of the merger (AMBEV) of the two largest breweries of Brazil (Antarctica and Brahma, for the creation of Americas Beverages — Ambev).

THE DEFENCE OF THE CONSUMER

The National System for the Defence of Consumers, on the one hand, aims at ensuring the adequacy and the necessary level of information to consumers, and, on the other, to inhibit abuse against consumers.

The Programme for the Defence of Consumers intends to provide all municipalities with a population of over 20 thousand inhabitants PROCON services, or those of civil bodies organised for the defence of consumers.

VI - SCIENCE AND TECHNOLOGY

Within the Programme of Expansion and Consolidation of Scientific and Technological Knowledge, there highlights the incentive to basic research, to applied research and to technological development. During the period from 2000 to 2003, the programme intends to invest over R\$ 430 million.

A new model of financing for research is being put in place in Brazil, to be funded with resources from former state owned companies which have been privatised. For each privatised sector, there is a forecast for the establishment of a fund for lending support to research. The fund pertaining to oil is already operating. This fund is to generate resources of around R\$ 100 million. The total resources the fund will count on should be of about R\$ 1 billion.

The Brazilian research and graduate-study system can only be compared, in the developing world, to those of China and India. Brazil has made much progress: in 1999 CNPq and CAPES granted 77 thousand scholarships and 4.7 thousand doctor degrees were obtained. In 1951, the year CNPq was established, 70 scholarships were granted.

Information Technology

The number of personal computers grew nearly five fold; from 2.2 million in 1994 to over 10 million in 2000.

In tune with the world trend, there has been a significant reduction in the price of microcomputers for household use and for small enterprises: a reduction of around 30% in dollars (US\$ 1,300.00 in 1994 to US\$ 800.00 in 2000).

The percentage of households having microcomputers increased significantly, from 2.5% of the total in 1995 to 7.5% in 2000.

Around 40% of the microcomputer equipment currently marketed in Brazil are meant for households and micro or small enterprises, which shows the increasing penetration of information technology in society.

Brazil already is the 7th country in the world in terms of the number of computers. Furthermore, the Brazilian market for computers represents more than half of the Latin-American market.

In 1996, there were less than two thousand INTERNET sites in Brazil. Currently there are over two million sites. The number of users of the INTERNET has also grown in a most demonstrative manner: they were less than 200 thousand in 1995, and currently several surveys indicate estimations of six million users.

The billing of the information-technology sector — including digital equipment for telecommunications — has practically doubled from 1993 to 1998, moving from R\$ 6.6 billion to R\$ 11.2 billion.

Exports of this industry presented a marked increase, from levels scarcely above US\$ 200 million a year, at the beginning of the 1990s, to current values close to US\$ 800 million. Aimed at promoting even greater growth, an effort is in course for reinforcing the productive chain in the industry, with a view at reducing imports of electronic components.

Important corporations have settled in Brazil or upgraded their productive units in the Country, both in order to serve the internal market and geared to exports, particularly to South America. Centres for technological development have also been put in place, including as a function of the requirements of the Information-Technology Act. During the period 1993-1999, investments in research and development implemented by corporations of this industry reached over R\$ 2.7 billion, out of which R\$ 900 million in agreements with national learning and research institutions.

It is estimated that currently the information-technology creates about 100 thousand direct jobs in the Country, nearly half of them for university-degree employees. Also as a consequence of the requirements of the Information-Technology Act, about 200 corporations within the industry have already been certified according to international quality standards (ISO).

SOCIAL DEVELOPMENT

INTRODUCTION

There are many historical causes for social injustice in Brazil, namely:

- the inheritance of slavery;
- the perverted relationship among economic plans and social policies; and
- the inefficiency of social policies in the past.

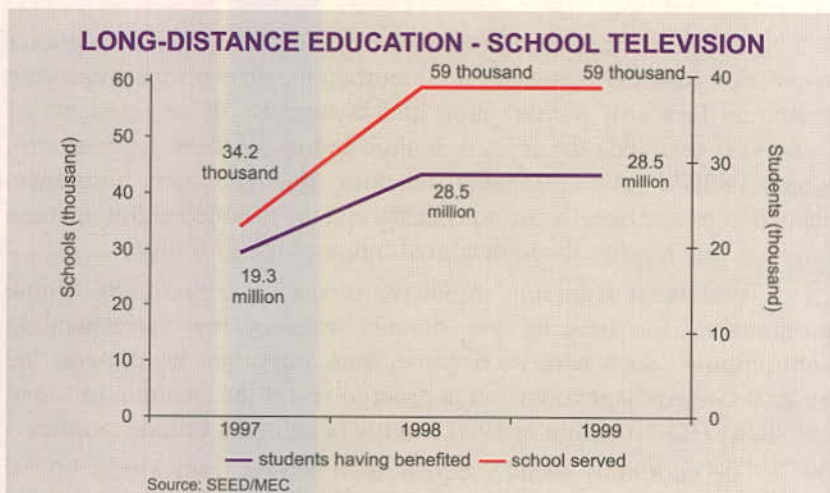
The different programmes of direct transfer of income to poorer populations already represents an important mechanism for preserving minimum levels of consumption and income by those segments of society. If one adds the resources allocated to all these programmes, which include rural retirement schemes, unemployment insurance, scholarships and benefits for the elderly and the disabled in low-income families, one reaches the high annual figure of R\$ 17 billion.

Retirement in the rural milieu represents a true minimum-income programme, for benefits are granted without the corresponding contributions. Such benefits become, thus, important instruments the Federal Government counts on in order to revert the situation of social inequality (R\$ 10 billion in 1999, having benefited 6 million people).

The enormous social inequalities inherited from a past full of injustice may not be eliminated during a little over half a decade. However, much has been done in terms of promoting social development.

EDUCATION

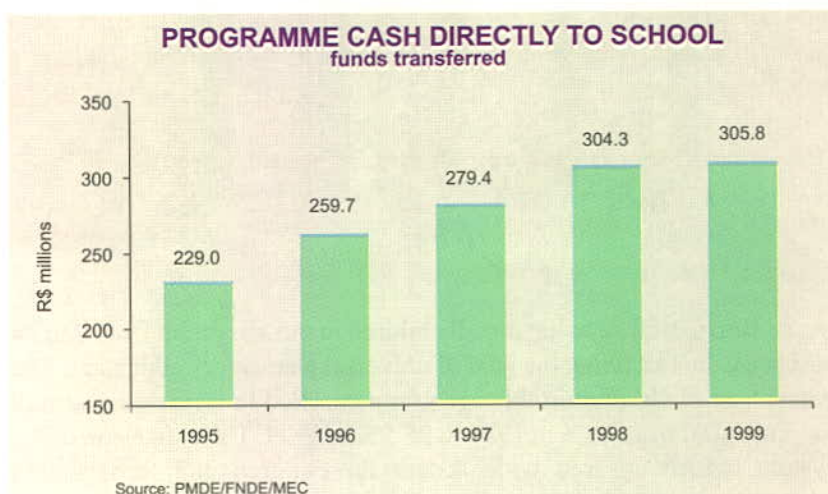
Education in Brazil has significantly improved during the last five years, to a large extent thanks to reforms carried out by the Federal Government. For the first time in the history of Brazilian education, the Ministry of Education has defined national parameters for pre-elementary education, for elementary and secondary education, including indigenous education.



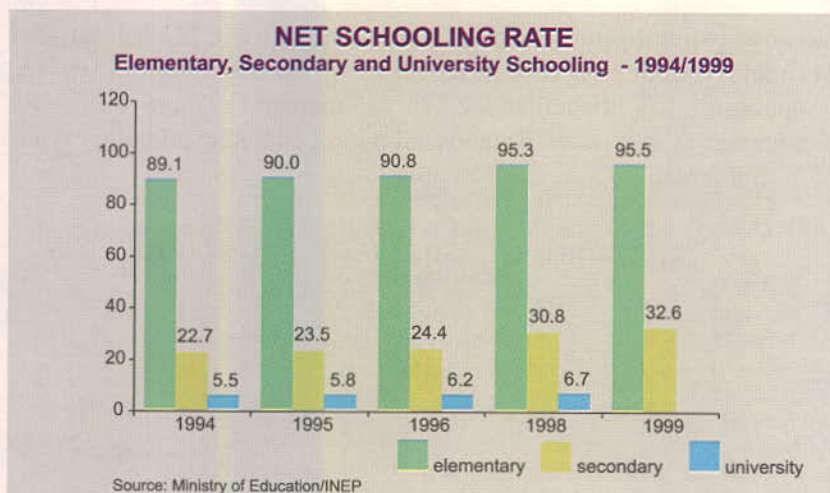
Technology is also present in educational reforms. TV Escola (School Television) is a programme geared to long-distance education, and it benefits about one million teachers and 28 million students. Schools have received television sets, videocassette recorders, educational tapes, parabolic aerials and, being connected to an exclusive channel via satellite, they receive high-quality programmes. In 1999, TV Escola started transmitting programmes meant for secondary education as well (16 hours per day of emissions).

The National Programme for Information Technology in Education (PROINFO) trains teachers of public schools. These teachers learn how to use computers as didactic instruments in the classroom. The Federal Government, in partnership with states and municipalities,

has already put together the training infra-structure in 223 Educational Technology Centres (NTE) in all States of the Federation. Thus, the programme has benefited 2.276 elementary schools in 989 municipalities, with over 30 thousand microcomputers and other types of IT equipment.

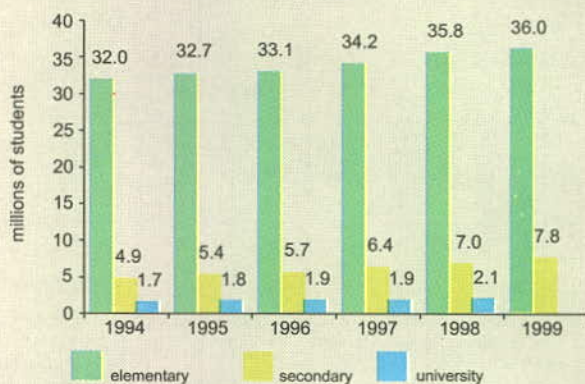


Two other important transformations were the transfer to municipalities of the responsibility for elementary education and to the States of secondary education. According to Programme Cash Directly to School, for instance, schools now receive federal funds directly, which eliminates the political manipulation of budgetary appropriations, allows more control of the expenditure by communities and encourages the establishment of Parent and Teacher Associations and School Councils (that manage the funds in partnership with the direction of the school). Over 56 thousand new Parent and Teacher Associations were created during the last five years, all over the Country.



Brazil is close to having all children in the age group from 7 to 14 at school, thus attaining the goal of universal elementary education. The percentage of children in this age group enrolled in elementary school has increased from 89% in 1994 to 95.5% in 1999. The expansion of the system, which ensured wide access for children and teenagers to education, is a direct consequence of the Fund for the Maintenance and Development of Elementary Education and for the Promotion of the Teaching Career (FUNDEF) and of the Programme All Children at School.

GROWTH OF ENROLMENT AS PER LEVEL OF SCHOOLING 1994/1999

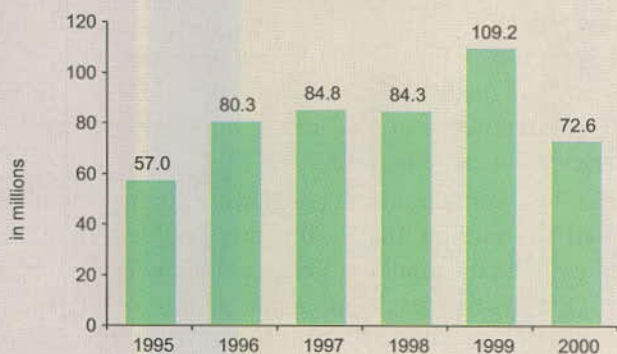


Source: Ministry of Education/INEP

The priority attributed to elementary education in the last five years has contributed for an important increase in enrolment in secondary school. From 1994 to 1999, there was a 57% increase. In elementary education, the increase was of 13%. In higher education, the increase in enrolment was of 28%, between 1994 and 1999, more than in the 14 previous years.

THE NATIONAL PROGRAMME FOR SCHOOL TEXTBOOKS

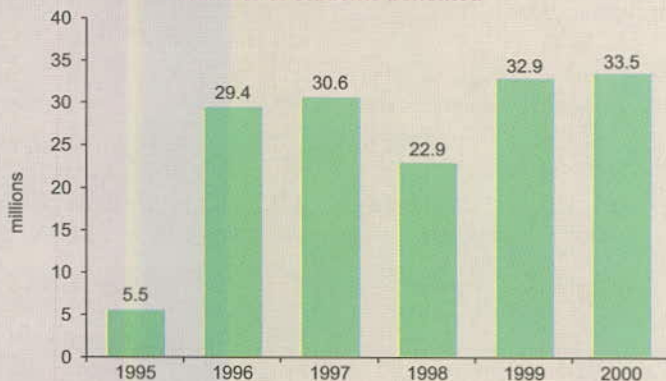
Number of books purchased



Source: Ministry of Education

THE NATIONAL PROGRAMME FOR SCHOOL TEXTBOOKS

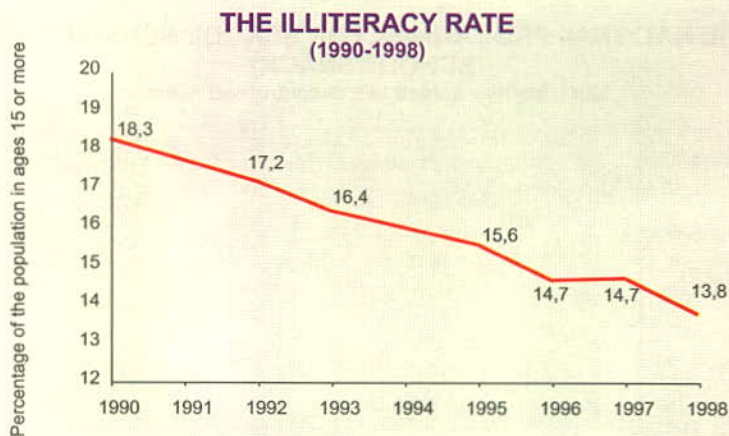
Number of students benefited



Source: Ministry of Education

In order to serve all children who have entered elementary education, the Ministry of Education has expanded the National Programme for School Textbooks (PNLD), which started distributing school textbooks not only for the first four grades, but also for the four subsequent ones. The quality of the books has also increased, for they are evaluated by committees of teachers and only after this evaluation they are recommended and purchased.

In 1995, 57 million school text books were purchased. In 1999 the figure surpassed 109 million, that is, it nearly doubled. In 2000, there has been a reduction in the number of books bought (72.6 million), as a consequence of the positive results of the programme of encouragement of the preservation of school textbooks. In a five-year period, R\$ 1.4 billion were invested in the purchase of around 500 million books for 174 thousand schools.

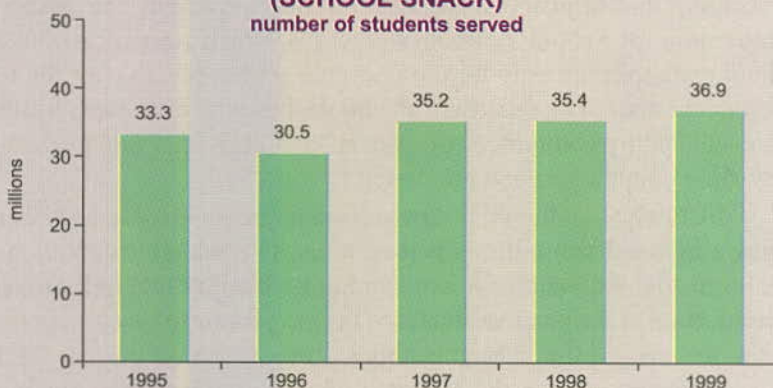


Source: IPEA, based upon PNAD

Another relevant datum is the more accentuated drop in the illiteracy rate among the population in ages 15 or more. In 1990, 18.3% were illiterate; in 1998, 13.8%. The most encouraging evolution occurred in the age group from 15 to 19, where the illiteracy rate dropped by one half, from 12% to 6%. With the swift reduction of the rate amongst young people, illiteracy in Brazil tends to become a phenomenon increasingly restricted to the older generations

THE NATIONAL PROGRAMME FOR SCHOOL NOURISHMENT (SCHOOL SNACK)

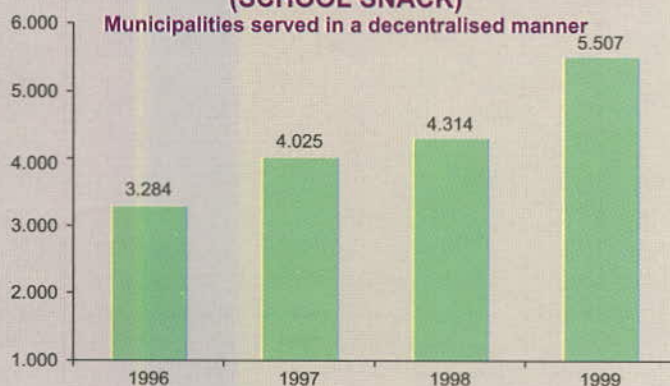
number of students served



Source: PMDE/FNDE/MEC

THE NATIONAL PROGRAMME FOR SCHOOL NOURISHMENT (SCHOOL SNACK)

Municipalities served in a decentralised manner



Source: PMDE/FNDE/MEC

The National Programme for School Nourishment (School Snack) is an important instrument in improving the results obtained by students, also ensuring a real reduction of school evasion. From 1996 to 1999, funds applied in this Programme increased by 92%, and the forecast for 2000 is of R\$ 920.3 million, which should serve around 37 million students in all 5.507 Brazilian municipalities.

HEALTH

The health system in Brazil is based upon the principles of universality, equity and integrity, granted by the Federal Constitution of 1988 and made concrete through the establishment of the Single Health System (SUS).

SUS is one of the largest public-health systems in the world, and it operates in a decentralised manner, re-directing the role of the Union and entrusting the states and municipalities with the execution of health actions and the delivery of health services., although every sphere of Government has a single command. The management of the system also counts on the participation of society, which operates through Health Councils, in the planning and control of health actions. Its funding is done by means of taxes and contributions collected at federal, state and municipality level.

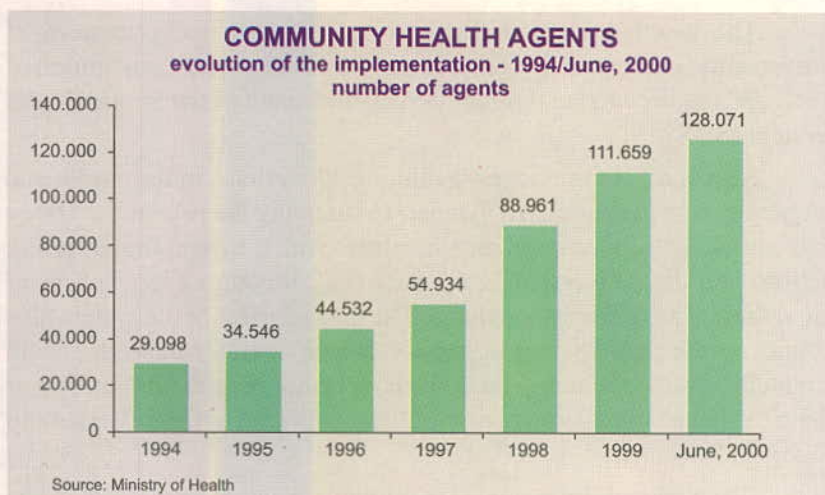
The National Programme for Immunisation has been deemed one of the most complete in the world, providing, free of charge, at the public health service, vaccines for children, young people, adults and the elderly. The range of vaccines provided to the Brazilian population has significantly increased. Currently, new vaccines for the pre-emption of influenza, pneumonia, German measles, measles, hepatitis B, meningitis, diphtheria, tetanus and yellow fever are available.

From 1998 to 1999, the Ministry of Health has doubled the volume of vaccines bought and distributed, which moved from 200 million to 400 million doses, representing a considerable increase of expenses, from R\$ 124 million to R\$ 231 million.

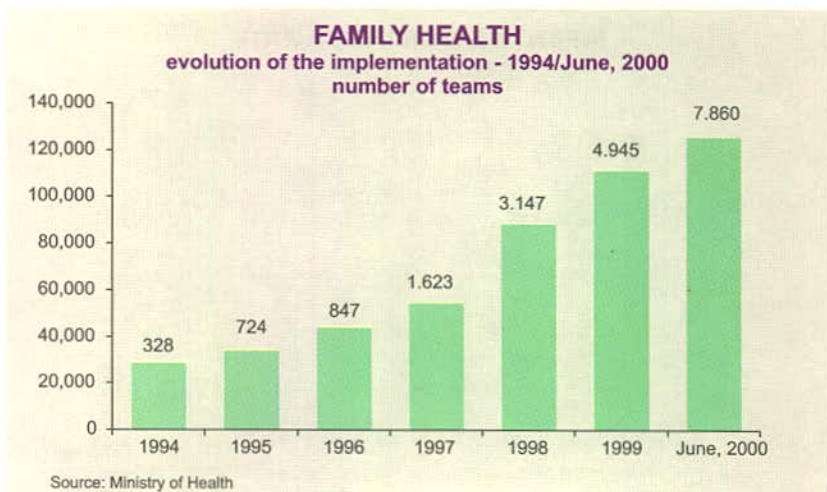
1999 represented a landmark for the National Programme for Immunisation: it marked the tenth year without poliomyelitis (infantile paralysis), deemed eradicated in the country by the World Health Organisation (WHO).

Some instruments of the new basic health care policy are Programmes Community Health Agents (PACS), Family Health (PSF), Struggle Against Nutritional Needs, Basic Pharmaceutical Care and Basic Sanitary Surveillance Actions, for the implementation of which specific financial incentives have been transferred. Starting in August,

1999, the total amount available for funding these five programmes was increased to R\$ 750 million per year.



The Community Health Agents Programme (PACS) is aimed at contributing to the re-organisation of municipality health services, to the integration of different actions geared and to the establishment of an effective link between the community and the health units and professionals. In order to discharge these functions, community agents make house calls and develop sanitary-surveillance and epidemiology actions, among other activities developed by different professionals of the area, aimed at establishing an effective link between the community and its health units. Currently, PACS operates in the 27 States of the Federation, and it counts on over 125 thousand agents. From 1994 to 2000, the number of agents increased by 340%.



The Family Health Programme (PDF) is aimed at re-organising the care practise on new bases and criteria, replacing the traditional model, geared to hospitals and to the cure of diseases. This programme concentrates on families, understood and perceived as from their physical and social environment, thus enabling Family Health teams to better understand the process health/disease, and the need for interventions going beyond therapeutic practises. The programme has already been put in place in 2.572 municipalities, and serves over 25 million people. From 1994 to 2000, the number of teams has increased over 20 fold.

INFANTILE MORTALITY RATE



Source: IBGE - Demographic Censuses of 1980 to 1991 and PNADS 92 to 95/MS Preparation: MF/SPE

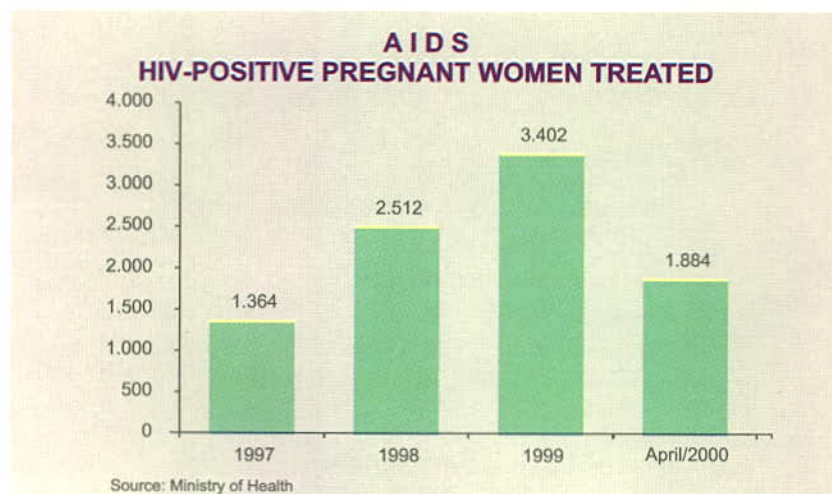
The reduction of infantile mortality remains a high priority for the Government. During the last years, efforts developed by Brazil in the promotion of child health achieved a significant reduction in infantile mortality, which reduced by 24% from 1990 to 1998.

The expansion in health care and the vaccination campaigns were fundamental for the drop in the mortality rate. The implementation of the Child Health Programme, with the promotion of breast feeding, the adoption of home made serum, the control of respiratory infections and the follow-up of children growth have also contributed for the improvement of this situation.

The Programme of the Ministry of Health for the control and pre-emption of AIDS has also been deemed an international reference. Brazil is one of the few countries that distribute the medicines necessary for the out-patient treatment of AIDS free of charge. Only in 1999, the Federal Government has invested around R\$ 600 million in the purchase of medicines for people infected with the AIDS virus. Currently, over 85 thousand people receive treatment at the public health-care network.

The policy regarding universal access to medicines, combined with the anti-retroviral therapy, has prevented 146 thousand patients from been hospitalised between 1997 and 1999, and has represented savings of US\$ 420 million for Government.

The country was able to reduce by 44% the estimation of people infected for 2000. At the beginning of the 1990s, the World Health Organisation (WHO) had forecast that Brazil would have 1.2 million people infected with HIV in 2000. The latest estimation of the Ministry of Health (1999) demonstrated that there are 537 thousand people infected.



The permanent campaign the Ministry of Health has been promoting amongst physicians, in order to encourage the application of HIV tests to all pregnant women is yielding results. By April, 2000, over 1.800 women had been treated with AZT, a medicine that reduces by up to 75% the chances a woman has of transmitting the virus to the baby.

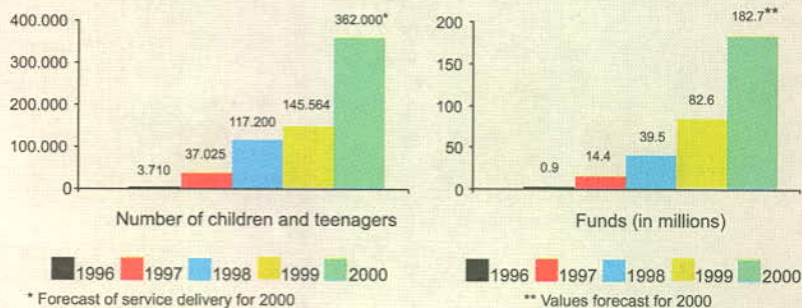
The High Commission For Human Rights of the United Nations declared, in May, 2000, that the Brazilian programme against AIDS is the best in the world, including due to its concern about the guarantee of human and fundamental rights to AIDS patients.

For the World Bank, the actions in terms of care and pre-emption of AIDS highlight in Brazil because of the quality of the educational campaigns and because of the ability of the Federal Government to articulate with several sectors of society, such as non-governmental organisations, enterprises and the armed forces.

The Programme of the United Nations for AIDS (UNAIDS) has chosen Brazil for launching the world-wide campaign against AIDS in 1999, because Brazil is one of the few countries offering the drugs used for treating the disease in a full and universal manner. The 1999 issue of UNAIDS', *The Best Practices*, esteems that pre-emption and care actions developed in Brazil to be exemplary.

SOCIAL SERVICE

EVOLUTION OF THE PROGRAMME OF ERADICATION OF CHILD LABOUR 1996/2000

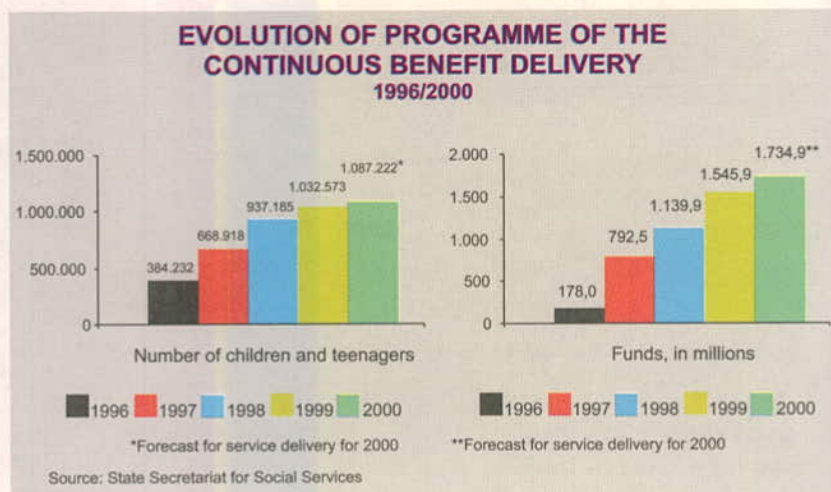


Source: State secretariat for Social Services

Programme Eradication of Child Labour (PETI), launched in 1996, is carried out in partnership with the States, municipalities and civil society, and it consists of sending back to school all children who, submitted to work deemed painful, have their development jeopardised.

For this purpose, the Programme pays families a scholarship, to compensate for the income formerly generated by the childrens. As a counterpart, school attendance is mandatory.

Continuous Benefit Delivery

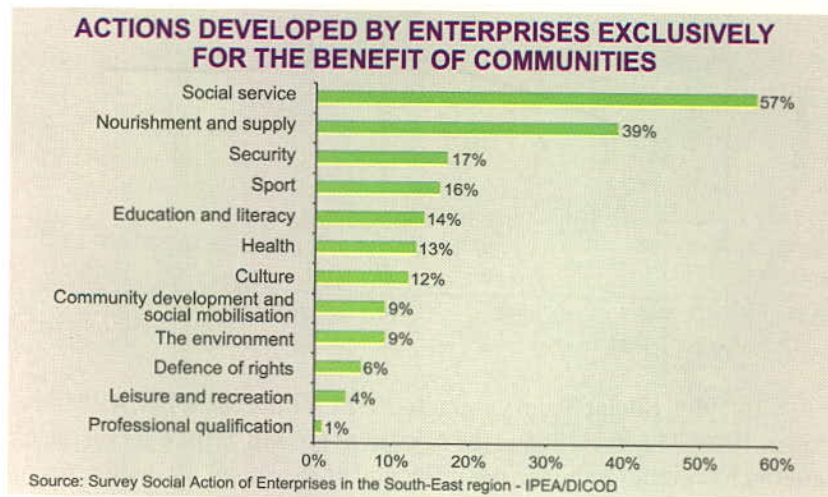


The Continuous Benefit Delivery is a social-service programme that consists of the monthly payment of one minimal wage to elderly people (above the age of 67) and to the disabled having family incomes below 1/4 of the minimal wage.

This benefit started being paid in 1996, and currently represents an annual expenditure of R\$ 1.5 billion, funded by the National Fund for Social Services.

PRIVATE INITIATIVE AND SOCIAL ACTIONS

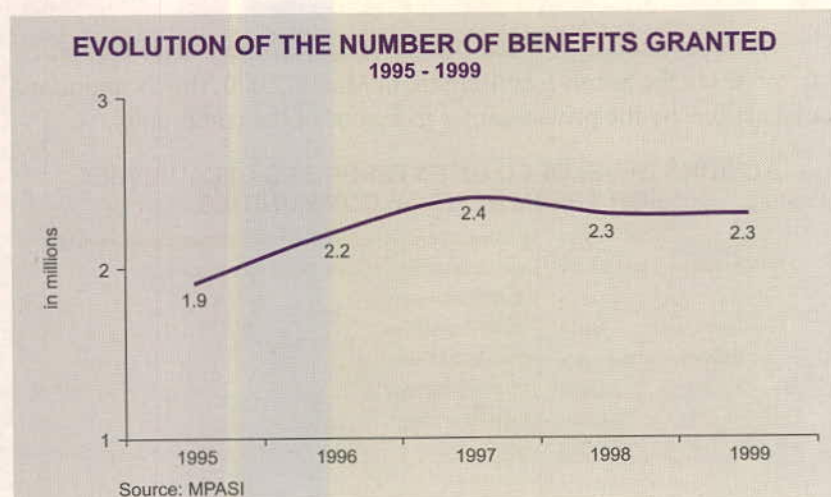
A recent survey carried out by IPEA on the Social Action of Enterprises in the South-East Region, in March, 2000, shows important social actions by the private sector in favour of the community.



According to the view that a social-development policy requires the participation of new players, it has been noticed that private-sector enterprises and organisations have been mobilising an increasing volume of funds meant for social initiatives, with actions that break the dichotomy between public and private endeavours and thus bring about a non-state public sphere.

Amongst 445 thousand enterprises included in the survey, 67% carry out some sort of social activity in favour of the community. There are 300 thousand companies in the South-East developing social actions, including both small occasional efforts and large projects. Around 57% of enterprises declare to carry out such actions in a usual manner.

SOCIAL SECURITY



In 1999, Social Security granted 2.25 million benefits, 4.1% less than in 1998. The reduction in the rhythm of growth of the concession of benefits has certainly borne the influence of the social security reform, which instituted the rule of transition, with the age limits of 53 for men and 48 for women, as a condition for eligibility for retirement based upon the time of contribution.

In 1999, 144.149 people retired based upon the time of contribution, which represents a 51.6% decline as compared to 1998. In addition, the average age for the concession of the benefit increased from 49.9 years, in 1998, to 52.25 years in 1999.

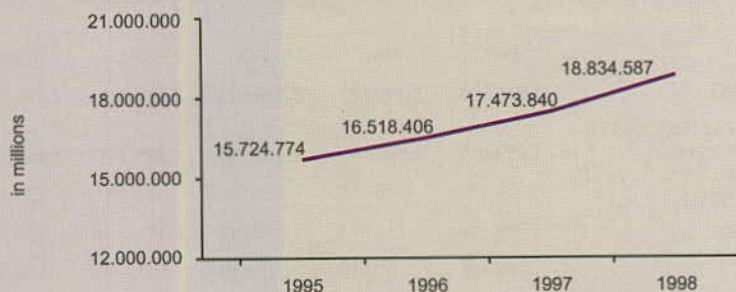
**EVOLUTION OF THE NUMBER OF BENEFITS GRANTED BY SOCIAL
SECURITY — 1995 — 1999
(ACCUMULATED FROM JANUARY TO DECEMBER)**

	1995	1996	1997	1998	1999
TOTAL	1,926.778	2,179.875	2,356.952	2,346.817	2,250.730
SOCIAL SECURITY BENEFITS	1,673.077	1,587.793	1,847.583	1,898.325	1,860.277
Retirement	678.976	650.747	846.168	834.270	725.719
Old age	250.300	230.885	298.948	391.636	399.324
Disability	112.293	99.620	129.806	144.777	182.246
Time of contribution	316.383	320.242	417.414	297.857	144.149
Pensions to heirs	329.145	275.577	280.452	283.290	277.917
Sickness allowance	584.401	573.588	606.596	630.972	653.456
Maternity allowance	76.541	83.923	109.849	145.388	199.202
Others	4.014	3.958	4.518	4.405	3.983
ACCIDENTS	198.105	187.837	191.164	175.929	163.533
Retirement	4.940	5.758	7.499	6.737	7.801
Pension to heirs	5.277	3.973	3.869	3.282	2.947
Sickness allowance	172.706	159.289	159.272	149.872	136.024
Accident allowance	13.027	16.684	18.490	14.780	14.890
Supplementary allowance	2.155	2.133	2.034	1.258	1.871
ASSISTANCE	55.596	404.245	318.205	272.563	226.920

Source: Social-Security Statistical Bulletin/MPAS

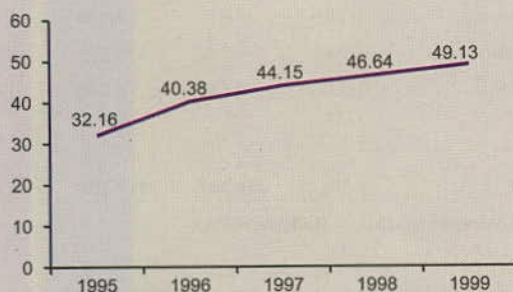
Taking the stock into account, in 1999, Social Security paid 18.8 million benefits, 3.6% above the figure pertaining to 1998. Most of these benefits are retirement and pensions, accounting for 83.5% of the total benefits paid in 1999.

EVOLUTION OF THE AMOUNT OF BENEFITS ISSUED BY SOCIAL SECURITY Position in December, 1999



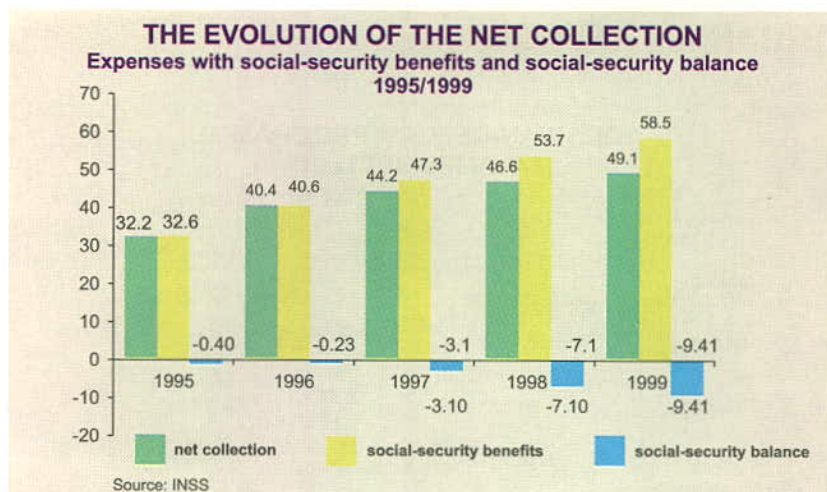
Source: Social-Security Statistical Bulletin / MPAS

EVOLUTION OF NET COLLECTION Current, R\$ billion



Source: INSS

Social security revenues present a performance slightly above that of 1998, with a collection of R\$ 49.1 billion (5.33% above that of 1998). The most important gains in 1999 derived from measures focusing the recovery of credits, such as court deposits, certificates of public debt and settlement of debts by some enterprises. These measures totalled R\$ 1.4 billion in the collection.

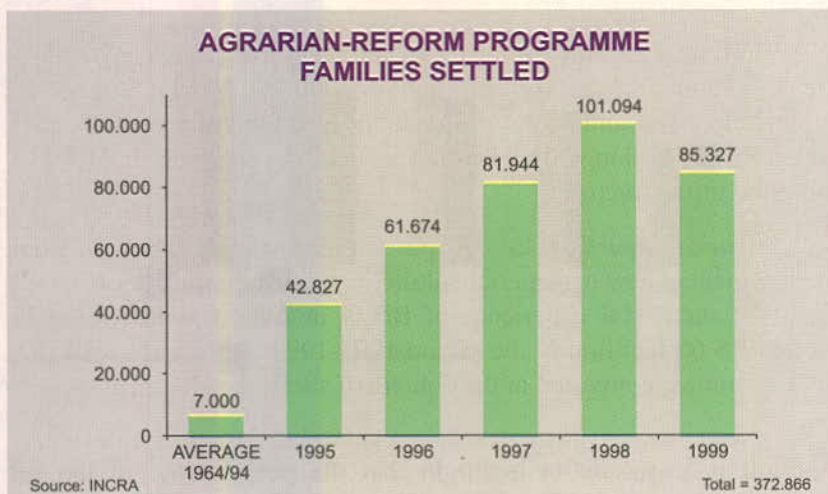


It is important to highlight that the performance of the net collection during 1999 was also marked by gains deriving from other measures in the domain of collection, such as that of social contribution by Labour Justice and the retention of social-security dues for services carried out by means of labour transfer.

In 1999, the social-security deficit totalled R\$ 9.4 billion, 32.5% above the one recorded in 1998. As shown in the graph, from 1998 to 1999, the growth of deficit was less marked than in the period 1997/1998. This behaviour reflects both the contention of the flow of retirements per time of contribution and the effort aimed at increasing collection, due to the implementation of measures in this domain.

Retirement in the rural milieu represent a true minimum-income programme, for they are benefits granted without the corresponding contribution. From 1994 to 1998, the value of retirement benefits in the rural milieu has practically doubled, now reaching nearly R\$ 10 billion, and benefiting over 6 million people.

AGRARIAN REFORM



A total of 372.866 families was settled from 1995 to 1999, by the Agrarian-Reform Programme.

The area of land reserved for the agrarian reform was 16 million hectares, which corresponds to twice the territory of Belgium.

The total cost of rural properties per family was R\$ 19.4 thousand, in 1999. Currently, the cost has been reduced to R\$ 9.3 thousand, 52% less than in 1995.

In 1995, the average value of the hectare acquired for the agrarian reform was R\$ 380,00. Now it has fallen to R\$ 280,00. In 1995, INCRA paid R\$ 166.5 million in indemnities. In 1999 this amount fell to R\$ 46.6 million.

The national average basic cost per family settled at the beginning of *Plano Real* was R\$ 40 thousand. Now it has fallen to R\$ 25.2 thousand. The 37% reduction was possible particularly due to economic stability.

AVANÇA BRASIL

In June, 2000, the National Congress approved *Avança Brasil* — the Pluri-annual Plan for the period 2000-2003, which involves expenditure of around R\$ 1.1 trillion in the next four-year period, out of which R\$ 585 billion will be devoted to social development and R\$ 212 billion to infra-structure.

Avança Brasil tries to put in place an entrepreneurial management, a new managerial culture in public administration, based upon the successful experience of Brazil in Action, which invested around R\$ 66.1 billion in the period 1995-1999. Out of this total, R\$ 40.8 billion were invested in the domain of social development.

Programme *Avança Brasil* has identified 365 priority projects that will mobilise government in the next four years. The Programme has as its reference the survey “National Development Axes”. This survey provided a kind of snapshot of the major national problems, minutely surveying the potentialities for and the stumbling blocks to development, per region and in the country as a whole.

The above mentioned study produced a portfolio of public and private investments in the areas of economic infra-structure, social development, information and knowledge, and the environment, in view of the demands of the Country, for the period 2000-2007. The amount is R\$ 317 billion, to be invested in structuring and integrated projects that will have a multiplying effect and will ensue other investments.

For the management of the Plan, a manager was appointed to each project, these managers having been chosen among qualified technicians, having solid professional experience and qualities of leadership. Before they took their functions, managers go through a wide training programme. In addition, a managerial information system has also been developed, which allows managers to integrate, in real time, with the other agents involved in the programmes.

With *Avança Brasil*, Government adopts a strategic long-term vision for the Country’s sustainable development.

SOLIDARITY COMMUNITY

Established in 1995, Solidarity Community is a new model of social action based upon the principle of partnership. Government and society have joined forces in the struggle against poverty and exclusion in Brazil, thus increasing the participation of civil society in social initiatives. The promotion of partnerships among Government and civil-society organisations is a responsibility of the Council of Solidarity Community. The articulation of partnerships within Government itself, among the federal, state and municipality levels, is an attribution of the Executive Secretariat of Solidarity Community.

The Council of Solidarity Community, made up of 28 representatives of civil society and four of Government, acts in three different manners: it promotes political dialogue between Government and civil society in the quest for solutions for the main items in the social agenda; it supports non-profit organisations, the so-called third sector.

The three innovating programmes of Solidarity Community are aimed at improving the relationship between Government and society via more participatory and decentralised actions.

The Solidarity University is a programme that counts on the participation of university students and professors in community work in some of the poorest municipalities in the Country. The teams transmit information and basic health, education, community organisation and citizenship notions, involving, particularly, the local multiplying agents — teachers and their students, health agents and community leaderships. The programme has mobilised, along its five years of operation, the work of 8.600 university students, 850 professors and 160 universities in around 800 Brazilian municipalities.

Solidarity Literacy Programme was established in order to reduce the rates of illiteracy in the country among young people from 12 to 18 years of age, without, however, rejecting adults. Based upon the censuses carried out by the Brazilian Institute for Geography and Statistics (IBGE), municipalities having the highest number of illiterate people are chosen. Now, the Programme completes service delivery to

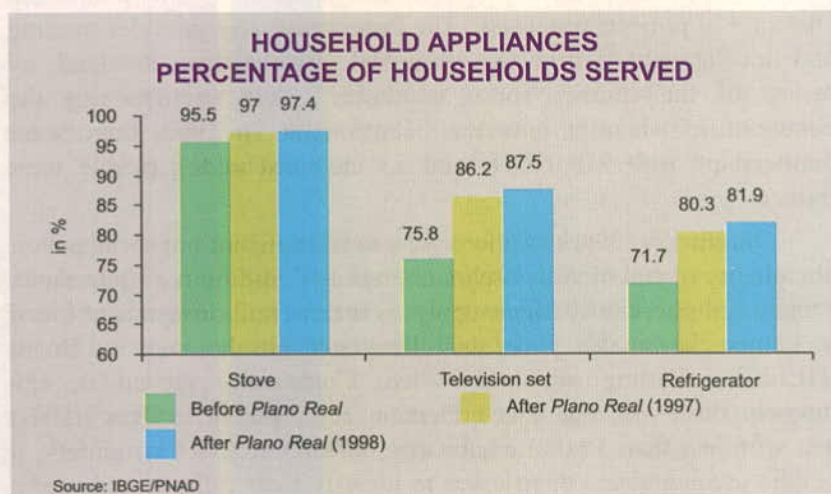
1.1 million Brazilians in 1.005 municipalities in 15 states and in the metropolitan areas of São Paulo, Rio de Janeiro and the Federal District.

Solidarity Training and Development Programme is aimed at professionally training and fitting into the labour market young people between the ages of 14 and 21, coming from low-income families of metropolitan areas. The courses, offered by organisations of the civil community and funded by private initiative, are selected by means of a public competition. The criterion for selection is the innovating character of projects proposed. The Programme also provides training and development to Non-Governmental Organisations involved, by means of the course "social managers", thus strengthening the communities where it operates. From 1996 to 1999, there were partnerships with 978 NGOs and 51 thousand young people were trained.

Starting in 1999, a step forward was taken in terms of social policy, already developed by Solidarity Community. The Active Community Programme was launched, the new way the Federal Government found to induce Sustainable and Local Integrated Development in Brazil (DELIS). Putting in place Active Community started in 150 municipalities with the lowest Human Development Indexes (IDHs) and with less than 50.000 inhabitants. Within Active Community, it befalls municipalities themselves to identify their callings and needs, and to decide on priority actions that should make up the local development agenda. One of the novelties of Active Community is the training of local leaderships, so that they can manage their own development process.

CONSUMPTION AND THE QUALITY OF LIFE

After *Plano Real* was implemented, conditions of access to basic household appliances have significantly improved. This fact was a consequence of the raise in the population's purchasing power and of the reduction in the prices of these products in real terms, also due to more competition, both among producers and vendors.



BASIC INFRA-STRUCTURE NEW PRIVATE HOUSEHOLDS SERVED

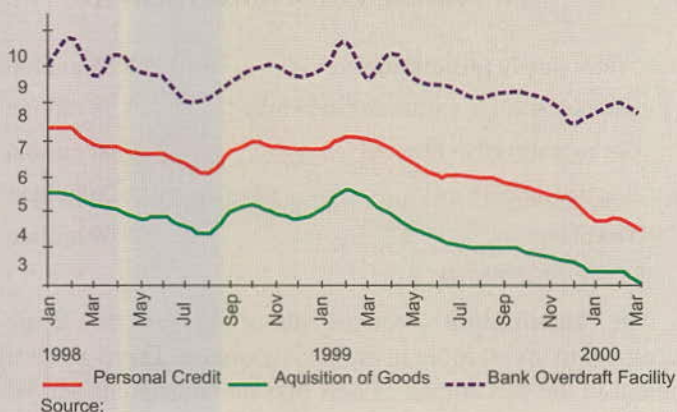
Water supply (general network)	5.36 million
Sanitary sewage (collection network)	3.38 million
Garbage directly collected	7.02 million
Electric lighting	6.26 million
Telephone	6.09 million

Source: IBGE/PNAD

The stabilisation brought about by *Plano Real* allowed Government to invest more in the social domain. There was a significant increment in the percentage of new private households served by basic infra-structure services.

From 1993 to 1998, there occurred significant improvements in the quality of Brazilian households: over five million new households started being served by water supply; over three million started counting on sanitary sewage; and over six million new households started having access to electric power. After *Plano Real*, over seven million new households count on garbage collection, and about six million families started being served by new telephone lines.

EVOLUTION OF INTEREST RATES TO THE POPULATION

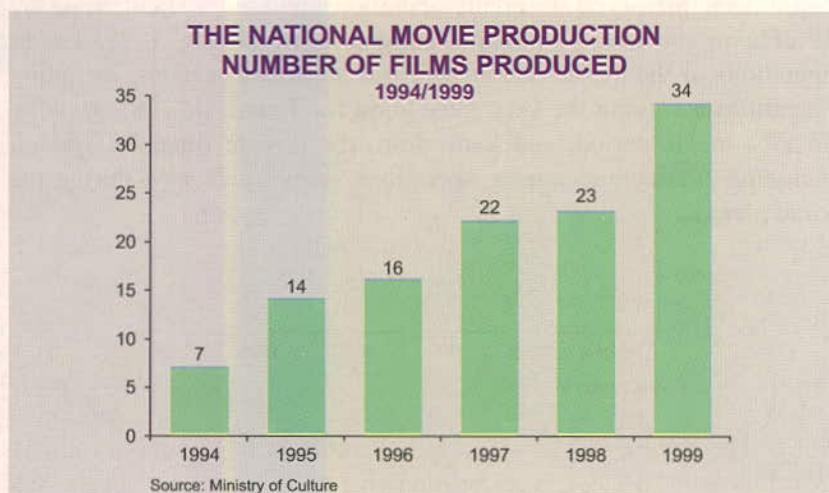


Parallel to the increase in the supply of credit to the population, 1999 recorded a reduction in interest rates charged for loans to natural persons. The average interest rates of bank overdraft facilities decreased by 11.4% in the last 12 months, starting from March, 1999. Interest rates for the acquisition of durable consumer goods fell by 43.66% during the same period, which favoured the increase in consumption during the last quarter of 1999 and the first quarter of 2000. In addition, interest rates for personal credit reduced by 36.43% during the same period. These trends explain the more favourable results recorded in the sales of electrical and electronic appliances in the first third of 2000, which showed increases of 27% and 2%, respectively, for the segments of video and audio and portable equipment.

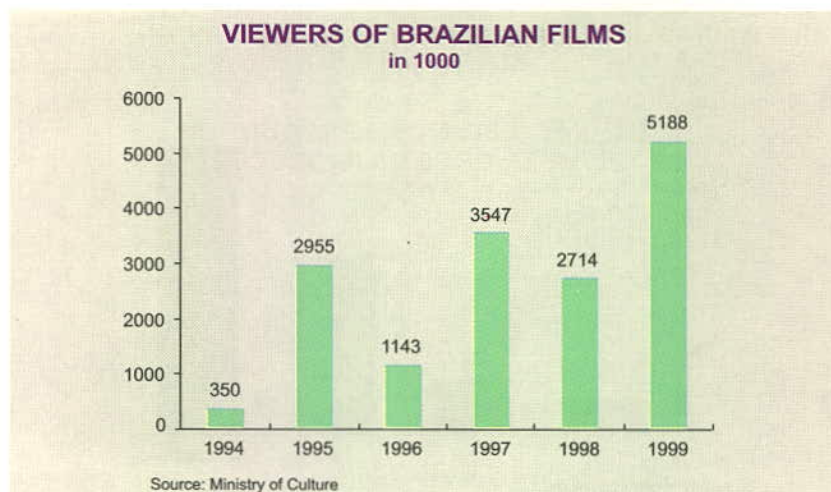
The reduction in the end-user interest rates for loans does not only favour the increase of retail sales, but it also facilitates payment of debts incurred and the reduction in the rhythm of indebtedness of economic agents. The data on default pertaining to São Paulo, for instance, indicate a relative improvement of this indicator in the last months. The difference between registrations received and cancelled presented a monthly average of 124 thousand net registrations in January-May 2000. In contrast, it had reached 175 thousand registrations during the same period in 1999.

As a result of government efforts aimed at reducing the bank spread and interest rates for final drawers, the credit supply to consumers, measured as credit operations without default, rose by 30.21% in the last 12 months, starting from March, 1999. Credit operations of the public sector in favour of natural persons, including operations involving the Guarantee Fund for Tenure (FGTS), grew by 56.55% in the period, and loans from the private financial system, including commercial leasing operations, grew by 21.94% during the same period.

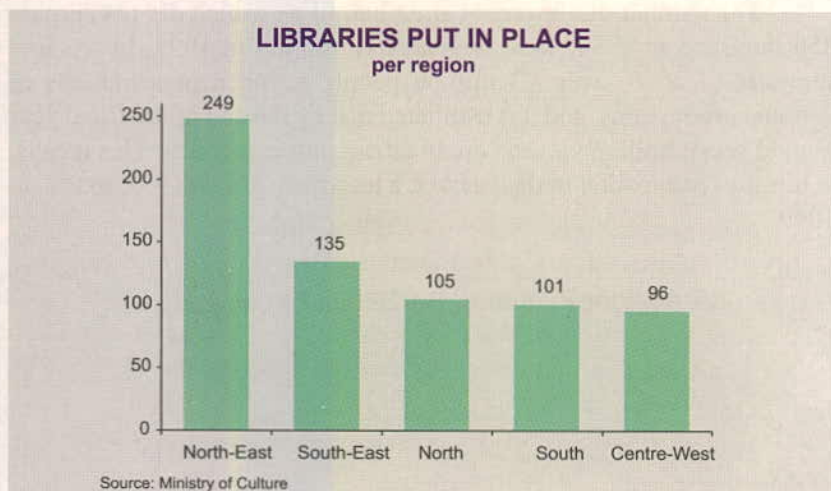
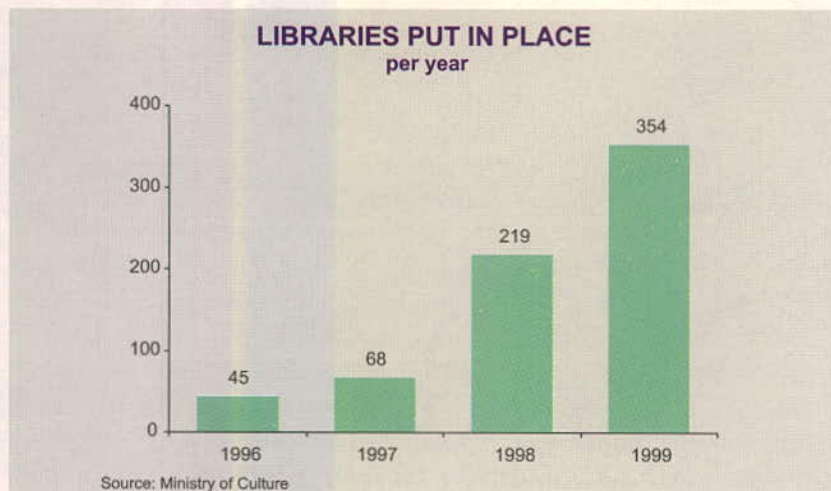
BRAZILIAN CINEMA — THE AUDIO-VISUAL PRODUCTION



In the domain of the audio-visual, the formerly dynamic national movie production was practically paralysed from 1990 to 1992. After approval of the Law on Incentives to the Audio-Visual, in 1993, the production of the industry started reacting. From 1990 to 1993, five films were produced, and the figure evolved to 117 in the period from 1994 to 1999.



The number of viewers of Brazilian films, which did not surpass 350 thousand in 1994, went beyond five million in 1999. In the first semester of 2000, over 3.3 million people attended presentations of national productions, and it is estimated that by the end of the fiscal year around seven million viewers are to attend movie theatres. This means, in terms of occupation in this market, a leap from 3%, in 1995, to 9%, in 1999.



In the domain of books and reading, 2.194 municipalities not counting on public libraries were identified. During the period from 1996 to 1999, 686 libraries were put in place, the investments in which, in the acquisition of collections, equipment and furniture, totalled over R\$ 27 million, an initiative that benefited all regions in the Country, particularly the North-East.

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