Brazil
Sustainable Economy

A Ministry of Finance publication > October, 2007

GROWTH WITH WEALTH DISTRIBUTION

A new model of development propels the economy, creates a new middle class and reduces in social inequalities.

BRASIL
UM PAÍS DE TODOS
GOVERNO FEDERAL

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Ricardo Azoury / Olhar Imagem

Brazil - Sustainable Economy
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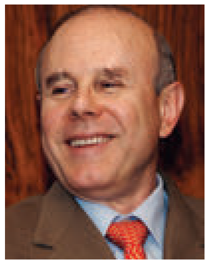
Luis Ushirobira

Germano Lüders

editorial

Building a fairer country


Elza Fiuza / ABr

In 2007, Brazil is experiencing an unprecedented period of its history. A new development cycle is underway, which combines sustainable economic growth and a narrowing of the social gap. This new cycle stands out for being more vigorous, well balanced, and propelled by foreign trade and the strengthening of the domestic mass market.

Growth is sustainable because the country has managed to reduce its vulnerability to international crises. Cumulative international reserves surpass US$ 163 billion.

The entire process is taking place in a context of monetary stability. Inflation is low and stable, the basic interest rate has been declining for over a year, and the nominal public debt has reached the lowest mark in history (2.08% of GDP). The aim is to achieve zero nominal debt by 2010. Net debt dropped to 43.1% of GDP in August 2007, and the target is 36% of GDP by 2010.

During President Lula's administration, government expenditures on personnel and social charges decreased proportionally to GDP if compared to previous years. There has been greater wealth distribution as a result of fiscal austerity. The government's primary public sector expenses have remained steady and, at the same time, transfers, such as those made under the Bolsa Fam'lia Program, have increased.

Brazilian GDP has been growing for over four consecutive years, boosted by family consumption, which has uninterruptedly increased for 15 quarters, and particularly by the expansion of public as well as private investments, at a pace of over 10% a year. The country is creating a real mass market and a brand new middle class is arising along with it. New jobs are being created, and in 2007, we expect to exceed the historical record of 1.5 million formal jobs created in 2004.

The volume of bank credit, which was R$ 380 billion in December 2002, reached R$ 830 billion in August 2007. Personal credit increased threefold in the same period, which bolstered consumption of durable goods and the purchase of homes. Industrial production has grown vigorously, especially the manufacturing and capital goods industries. This growth is due to higher productivity, ensuring greater profitability to investors, the strengthening of capital markets, and the soundness of the financial system. As a result of the social inclusion policy, poverty has been reduced, and unequal wealth distribution, measured by the Gini index, has diminished.

This unprecedented virtuous development cycle has allowed Brazil to successfully and serenely face the most recent international turbulence. Macroeconomic soundness has made the country much more resistant to shocks. In the second quarter of 2007, there was sharp growth in foreign exchange derivatives transactions involving the Brazilian currency. After a 34% increase in the volume of real/dollar derivative transactions in relation to the first quarter in 2007, contracts in reais exceeded contracts in yen, and the real became the second most actively traded currency in the world, second only to the euro/dollar currency pair. The effects of international turbulence were not felt in Brazil; there was no capital flight, no lack of liquidity, and no Brazilian bonds were sold.

This unique moment in Brazilian history poses enormous challenges to current and future generations. While millions of Brazilians are entering the mass market, there is still widespread inequality to be addressed, especially in the areas of health and education. The country's growth potential is immense. This year, our government launched the Growth Acceleration Program PAC, involving a full range of infrastructure projects which are essential to sustain this new cycle of development in the long run.

Brazil is open to opportunities, and fully able to compete successfully in the global economy. We are a nation of entrepreneurial, motivated people, who rely on the future, determined to build a fairer and more humanitarian country.

It is a big honor and it is with great pride that we take part in this venture!

Guido Mantega
Minister of Finance

A new develo

* Government projections (PPA 2008-2011) > Source: IBGE > Prepared by: Ministry of Finance / (SPE)

pment cycle

The economy is booming again, together with a reduction in social inequalities

In Brazil, the times of uncontrolled inflation, arrested development, shortage of investment capital and high unemployment are all in the past. Good news — stability, trade balance records, surplus in current transactions, reduction of the public debt, increases in the purchasing power of the population and in the income of workers — is deeply changing the country, and marking an era of prosperity that Brazilians have not witnessed for decades. The economy has taken a vigorous and sustainable course. Over the last 4 years, considering a projected 4.7% increase for GDP in 2007, the Brazilian GDP has increased an average of 4.3%. This is a fast pace for a complex and mature economy which, after decades of sluggishness, has regained its strength.

Civil Construction at the peak: one of the symbols of the economic recovery

Germano Lüders

During worldwide turbulency, Moody's improved Brazil's rating

According to the World Bank's GDP ranking, Brazil is the world's ninth largest economy. Consumption has been increasing since the last quarter of 2003, investments have been on the uptrend as of the first quarter of 2004, the financial sector is sound, and profits in the productive sector have been promoting modernization and expansion projects. A growing number of Brazilian companies are opening branches abroad to compete with major international groups.

As a result of a new development model, the combination of growth and stability has promoted a distribution of wealth which is probably unparalleled in the world. This process has allowed millions of new consumers to emerge, and has brought about noticeable improvements in social and economic indicators.

Germano Luders

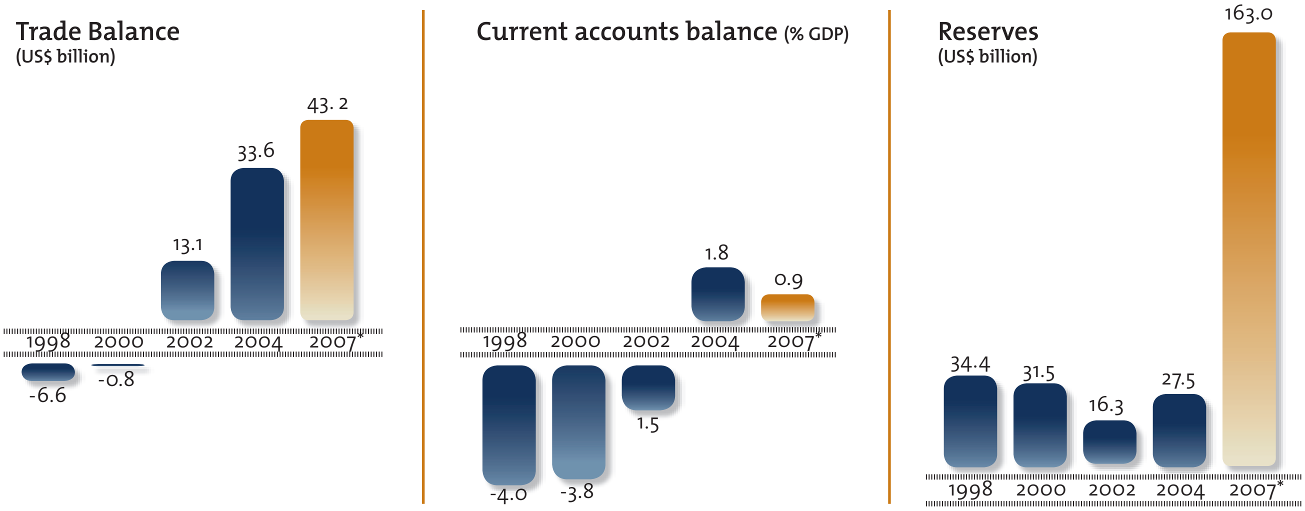
Bovespa: stock market record, right after global turbulence

RESISTANCE TO CRISES

The sustainable growth that has propelled Brazil is founded on three pillars. The first one is the reduction of external vulnerability, achieved with an increase in the trade surplus (US$ 46 billion in 2006, in comparison to a US$ 6.6 billion deficit in 1998), and in current accounts, and solid international reserves, currently at US$ 163 billion, the highest level ever reached. Since March 2006, as of the quarter following the settlement of the International Monetary Fund debt, reserves have been bolstered by an additional US$ 103 billion.

This gigantic effort has increased Brazilian participation in world trade. Exports,

The country moves forward...



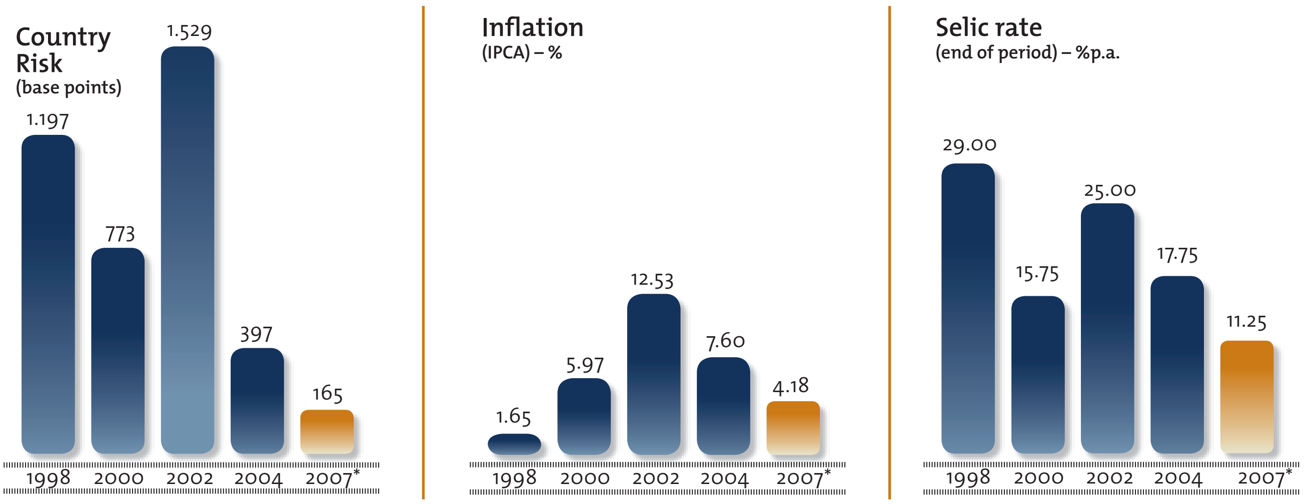
The increase in investment indicators surpasses increase in consumption

which ten years ago totaled US$ 53 billion, reached US$ 137 billion in 2006 and have become one of the propellers of the economy. Between 2002 and 2006, exports rose 128%, while imports increased 93.4%.

The country has become a world power in agribusiness, and is exporting jets, vehicles, software and a wide range of products to every corner of the planet. Few countries have advanced so far in so a short time. This was accomplished through a new trade policy, based on the diversification of exports and commercial partners. One of the largest Brazilian trade partners is China, which until 2002 was the seventh largest market for Brazilian products. It now ranks third with a 6.1% share of Brazilian exports.

The threat of a global crisis, recently

...with sustainable growth



* Data available at the end of September, 2007 > Source: Ministry of Finance / SPE

> “Brazil is the clearest example of newborn financial stability in Latin America”
>
> The Economist
> *August 25, 2007*

Roberto Stuckert Filho / Ag. O Globo

Lula is greeted by Hu-Jintao: China is the third largest Brazil’s partner

caused by the difficulties faced by the US housing sector, which required the intervention of US, Japanese and European monetary authorities to assure liquidity and to reduce the risk of recession, tested the resilience of the Brazilian economy. If, initially, the volatility of Brazilian asset prices was higher than in other countries, this state of affairs rapidly stabilized, due mainly to the current transactions surplus and the high volume of monetary reserves.

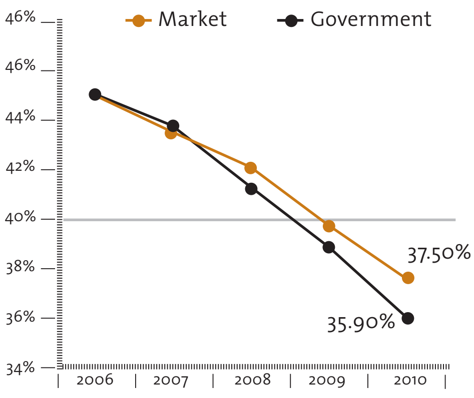
STOCK MARKET RECORDS

There was no capital flight, the currency flows were positive, the financial markets operated within the usual limits and companies were not affected. After an initial drop, the São Paulo Stock Market (Bovespa), rapidly recovered and, at the beginning of October, broke its business volume record, reaching 63,000 points.

Despite the international situation, Moody’s increased Brazil’s rating, classifying it as “investment grade”. The country’s risk premium has already returned to the level prior to the crisis, contrary to what happened in most emerging countries. The country’s risk rating, the main indicator of confidence for foreign investors, was at 165 points in October, after reaching 2,436 in 2002, at the peak of the turbulent election period.

“Brazil is the clearest example of newborn financial stability in Latin America”, said The Economist, on 25 August. “Foreign banks continue to recommend investments in Brazil, in spite of the turbulence.

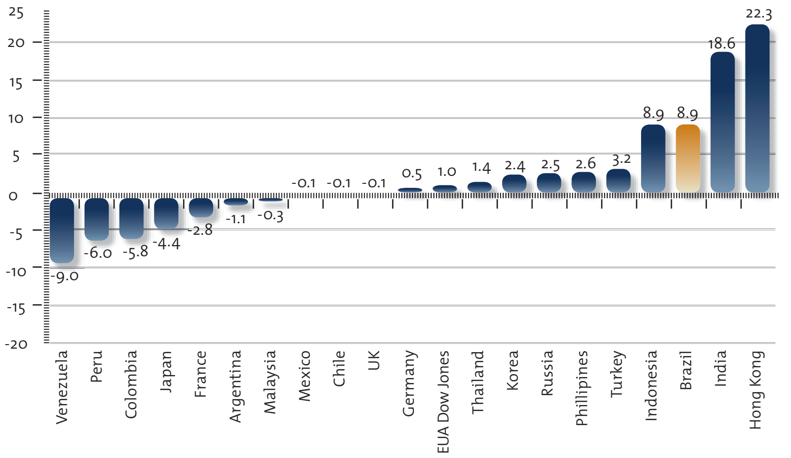
NET Debt / GDP scenarios based on market expectations



Source: National Treasury

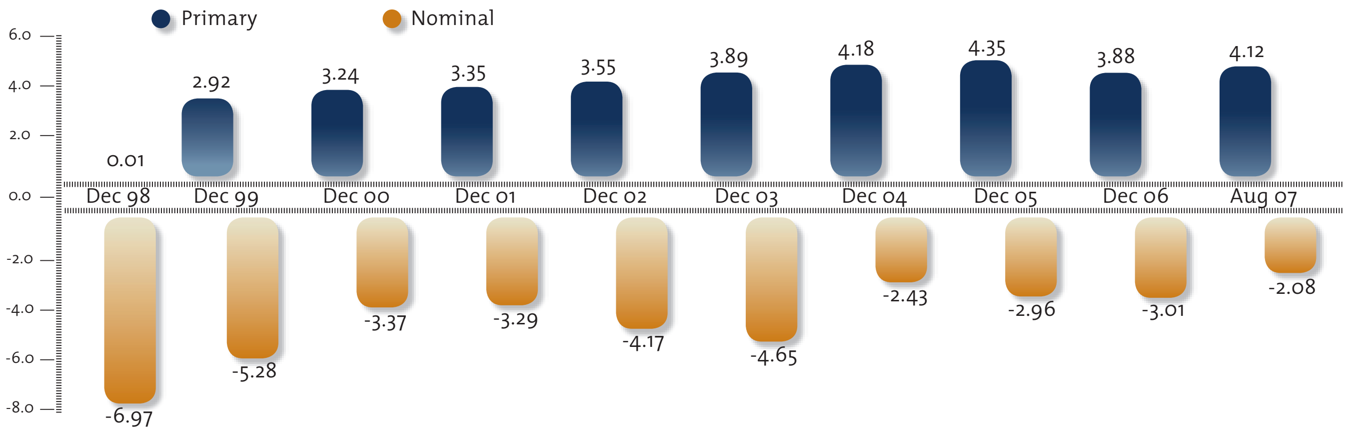
Away from turbulence

% variation between 7.23 and 10.10.2007 – sub-prime crisis



Sources: *Valor Econômico*, Reuters and Bloomberg > Prepared by: MF/SPE

Public Sector Balance (% of GDP in 12 months)



Source: Central Bank

The analysis is that the country has become a safe harbor in Latin America for investors seeking higher returns and lower risks. Among foreign organizations recommending investments in Brazil are Merrill Lynch, Goldman Sachs and Citigroup", said Gazeta Mercantil on August 20.

MONETARY STABILITY

The second pillar of sustainable growth of the Brazilian economy has been monetary stability. Since 2003, the annual rate of variation of the national consumer price index (IPCA) has been dropping, and in 2006 it was below the target established by the National Monetary Council (NMC). For 2007, the forecast is 4.2%, and for 2008, 4%. Other price indexes have also dropped since 2003, and are currently at a level close to IPCA, following a trend that has put an end to the inflationary cycle which prevailed for many years.

With inflation rigorously under control, interest rates has been falling since September 2005, after having been among the highest in the world. This decrease has allowed the financial system to expand credit for both consumption and investment.

> **Economic growth must be socially just**
>
> *Guido Mantega, Minister of Finance*

Washington Alves

Sustainability: social programs fostered inclusion and alleviated poverty.

The evolution of the Federal Public Debt for the level of investment

Improvement in the composition of the Federal Public Debt was essential for the reduction in sovereign risk

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Moody's	B1	B2	B2	B1	B1	B2	B2	B1	Ba3	Ba2	Ba1
S&P	BB-	BB-	B+	B+	BB-	B+	B+	BB-	BB-	BB	BB+
FITCH	B+	B+	B	BB-	BB-	B	B+	BB-	BB-	BB	BB+

ZERO NOMINAL DEFICIT

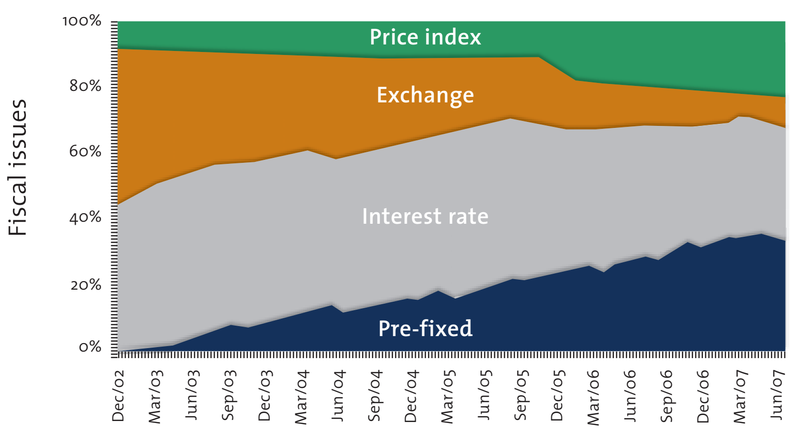
The third pillar of sustainable growth is fiscal responsibility, through a policy aimed at a gradual reduction in the debt/GDP ration, interrupting a nine-year uptrend. Since November 2002, when the public debt represented 50.5% of GDP, this ratio has been reduced by 7.4%.

This commitment became concrete, at the beginning of current administration, with the increase in the primary surplus target from 3.35% to 3.80%. Between 2003 and 2006, the actual primary surplus was, on average, 0.84% higher than that registered between 1999 and 2002.

Thanks to this policy, the public sector financing needs have been the lowest ever recorded in the country – on average, 2.8% of GDP for the 2004-2006 biennium.

With fiscal austerity, the nominal deficit reached the lowest mark ever registered (2.08% of GDP). The goal is to reach zero by 2010. "We do not need to raise interest rates to attract foreign capital, because we have adjusted our accounts", says Mr Mantega. "We have been implementing fiscal adjustments for four and a half years, and primary surplus adjustments for nine years. It is something unparalleled in history."

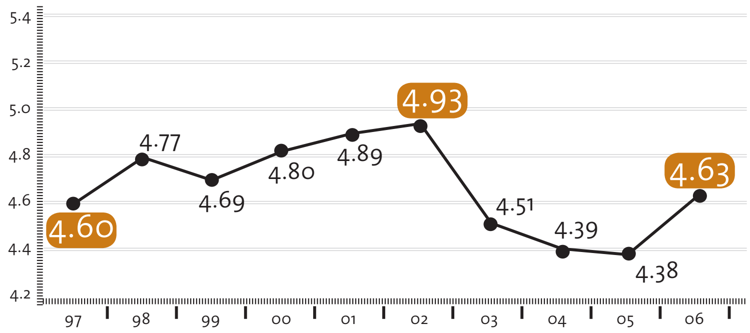
Federal public debt composition (domestic and external)



Source: National Treasury

Evolution of total personnel and social payments (% of GDP)

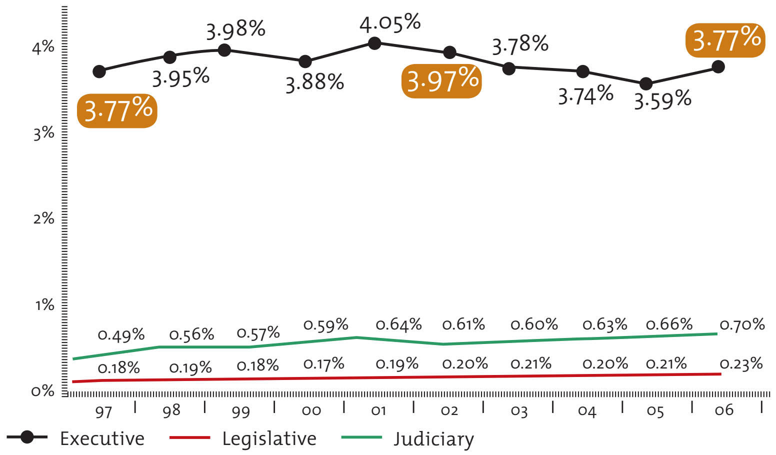
Concept of Competence (without social contributions from the government)



Source: Ministry of Planning

Evolution of Federal personnel costs and charges

(% of GDP per branch of government)



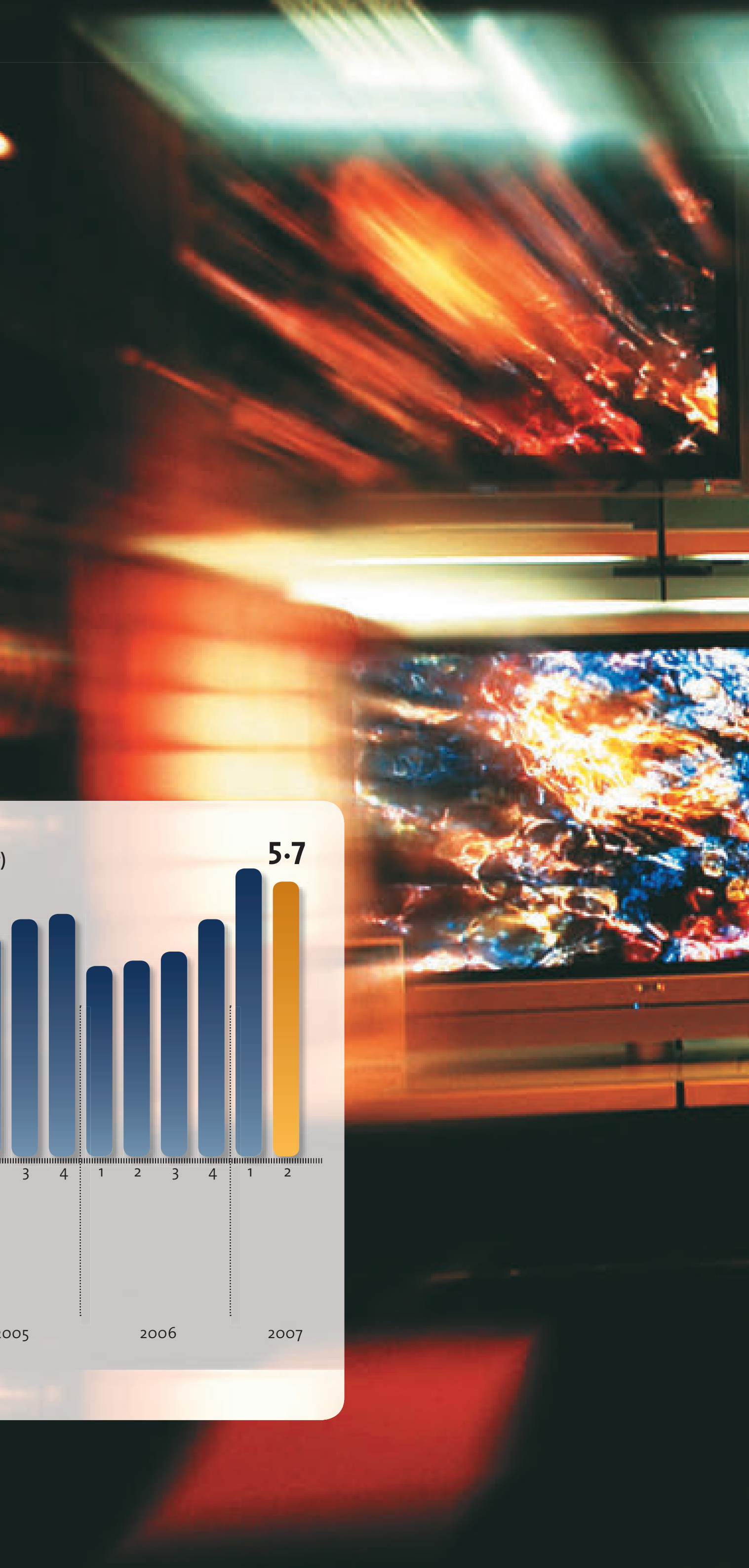
Source: Ministry of Finance / SPE

Federal government personnel expenditures have also dropped. In December 2002, the ratio was 4.93% of GDP; in December 2006, this ratio dropped to 4.63%. The executive branch, with the largest share of these expenditures, has followed the trend. In December 2002, personnel expenditures represented 3.97% of GDP, higher than the 3.77% ratio registered for December 2006.

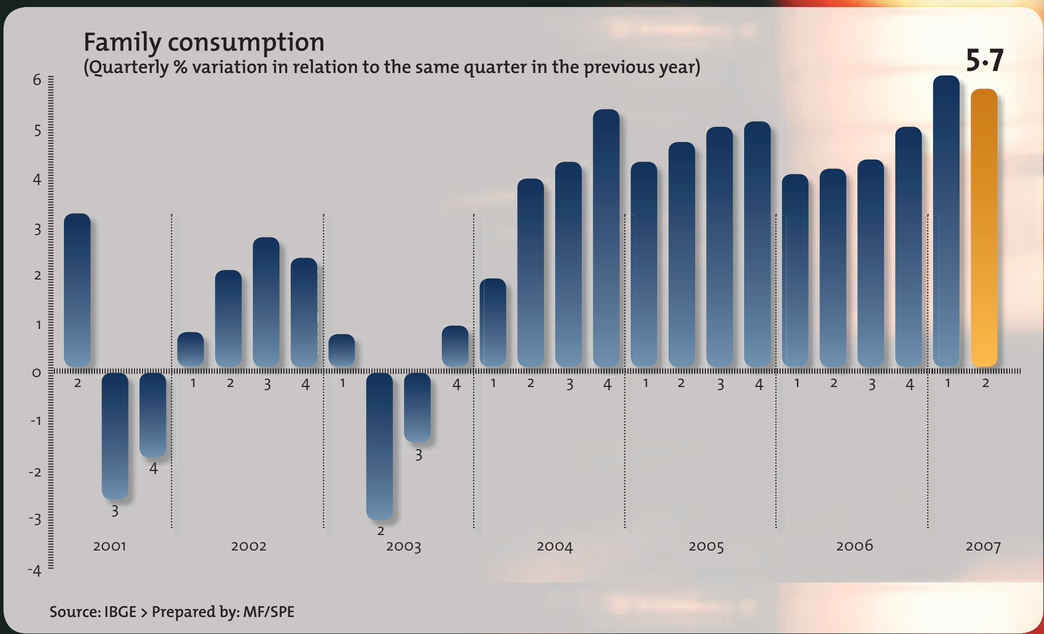
The new development cycle that is changing Brazil is also based on social inclusion and the reduction of inequalities, through one of the most successful income distribution programs ever implemented. This economic growth model, according to Mr. Mantega, must be socially just, ensuring higher consumption for families, and at the same time must be sustainable, based on the expansion of productive capacity, with higher investments, especially in infrastructure. "Brazil is growing and wants to grow even further, in a consistent, balanced and socially just manner." ■

Mass Consu

New job positions and income increases have created a new middle class



In 1967, the number of Brazilian consumers barely reached 14 million. Now the country has 60 million consumers with income over R$500, making it one of the largest consumer markets in the world, exceeding even India, that has a population 6.2 times larger. Very few markets in the world have multiplied and modernized at the same rate as the Brazilian market, and this pace has gained even greater intensity over the past years since the country adopted the sustainable growth model as a guideline.

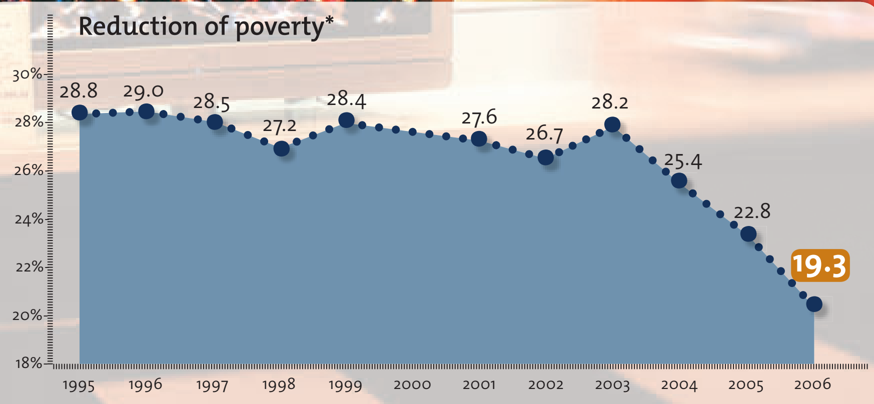


Source: IBGE > Prepared by: MF/SPE

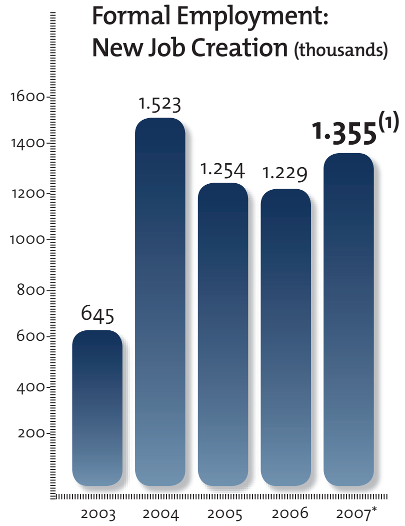
mption

Alexandre Battibugli

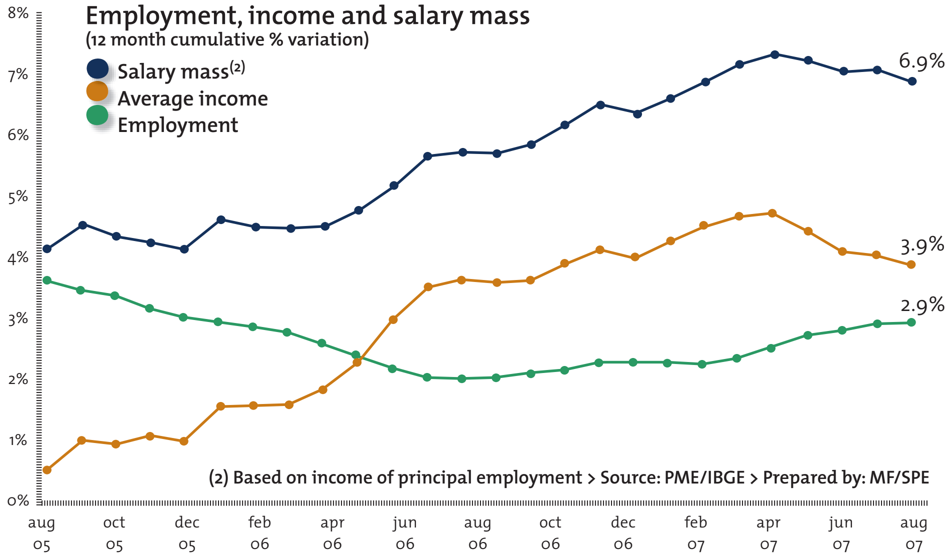
"Chinese" growth: sales of electronic goods will increase by 10% in 2007



* Concept of poverty according to FGV's definition: individual per capita income of less than R$125 (value of a basic food basket in the greater São Paulo metropolitan area, regionalized for other areas according to the cost of living).
Source: FGV/PNAD/IBGE > Prepared by: MF/SPE



(1) 12-month cumulative to August
Source: MF/SPE > Prepared by: MF/SPE

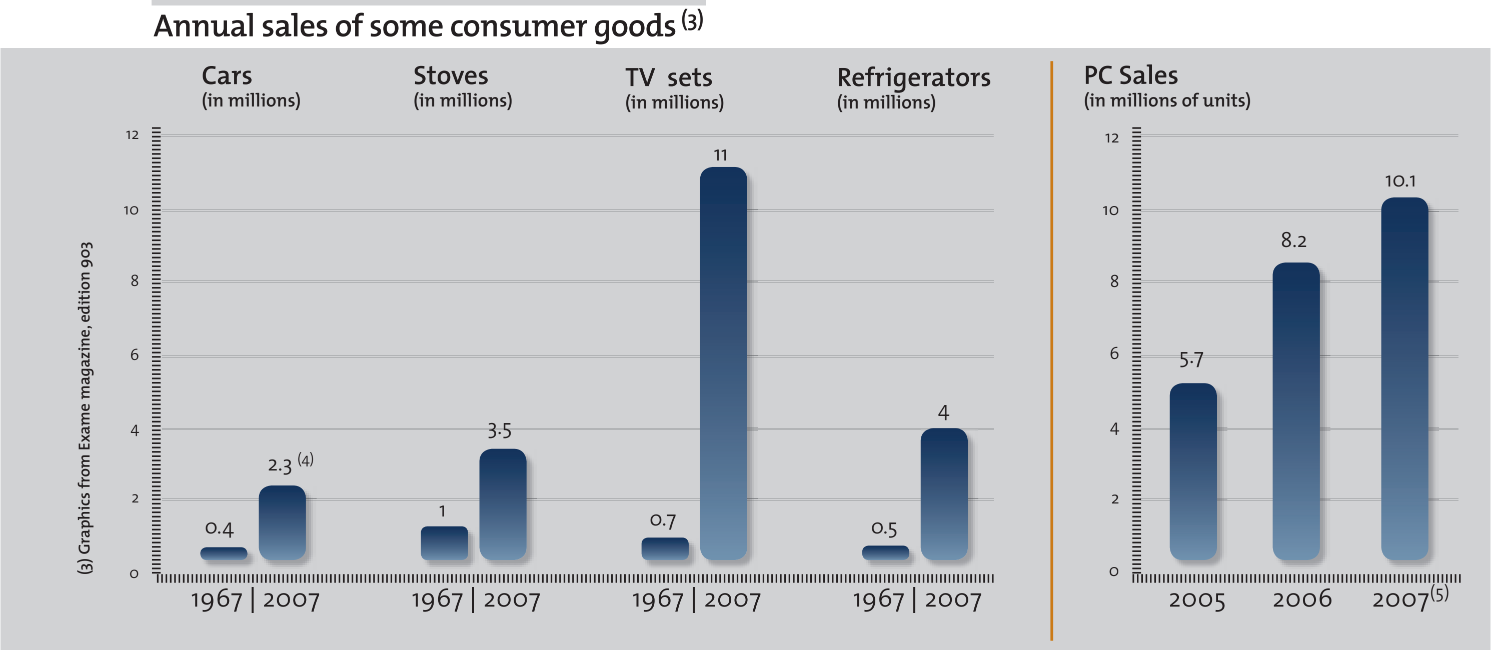


(2) Based on income of principal employment > Source: PME/IBGE > Prepared by: MF/SPE

However, when one compares Brazil 40 years ago with the country today, the figures alone are not the only impressive aspect. The consumers' profile has also changed dramatically. Not so long ago, many Brazilians who have recently joined the current consumer market, had no access to consumption at all. In the past, 37% of consumers were ranked class E, the very low-income segment. Now, only 8% of the population fits into this category. On the other hand, the 34% who are currently ranked in class C is more than double the proportion registered in 1967.

SOCIAL GROWTH

According to the August 24 issue of the Economist, "Members of this new middle class arose nearly overnight in Brazil, as well as in most of Latin America (...) In Brazil, between 2000 and 2005, the number of families with annual incomes between US$ 5,900 and US$ 22,000 rose



(4) Estimate Sources: Nacional Association of Eletric-Electronic Goods, Anfavea

(5) Forecast. Sources: Abinee, IDC, IT Data, e-bit, GNETT/ Ibope/netRatings, telephone companies, ABTA and Teleco-F

The income of Brazilians has increased in all brackets

Saulo Kaimuma

> "In Brazil, a new middle class is springing up almost overnight"
>
> The Economist
> August 25, 2007

50%, from 14.5 to 22.3 million, while those earning less than US$ 3,000 p.a. dropped to only 1.3 million".

A great number of people have joined the universe of those who own their own houses, cars and computers. This migration process, which is creating a brand new middle class, has been made possible by a combination of factors, the first of which is the increase in employment and income. Formal employment has been steadily growing over the past few years. Between January 2007 and August 2007, over 1.3 million new jobs were created in the country. These data alone represent an increase over and above all previous years. At the same time, the unemployment rate has been showing signs of further decrease.

In the last four years, wages have risen 23% in real terms and the minimum wage has reached the same level it was in the 1960s*. The population's purchasing power

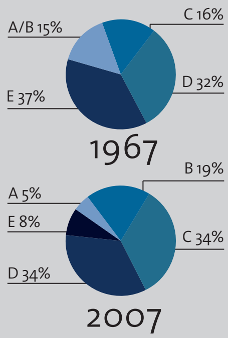
* According to data from the Institute for Applied Economic Research (IPEA)

Consumer profile (3)

Number of consumers(6)

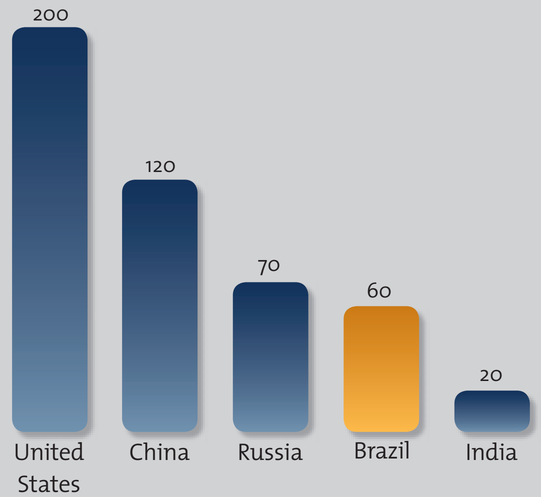
1967	2007
14 million	60 million

Consumers classification per social bracket(6)



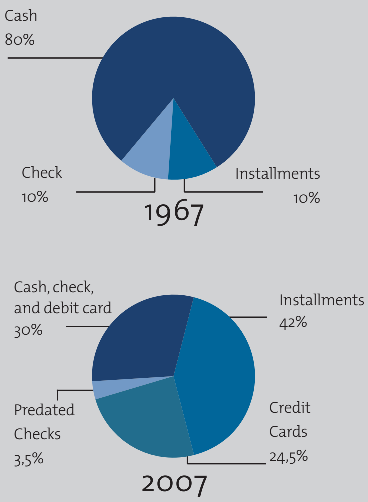
(6) Available data from IBGE for the 1960's do not allow breakdown between classes A and B

Comparison between the number of consumers in Brazil and other countries (in millions)



Sources: IBGE, LatinPanel, Goldman Sachs

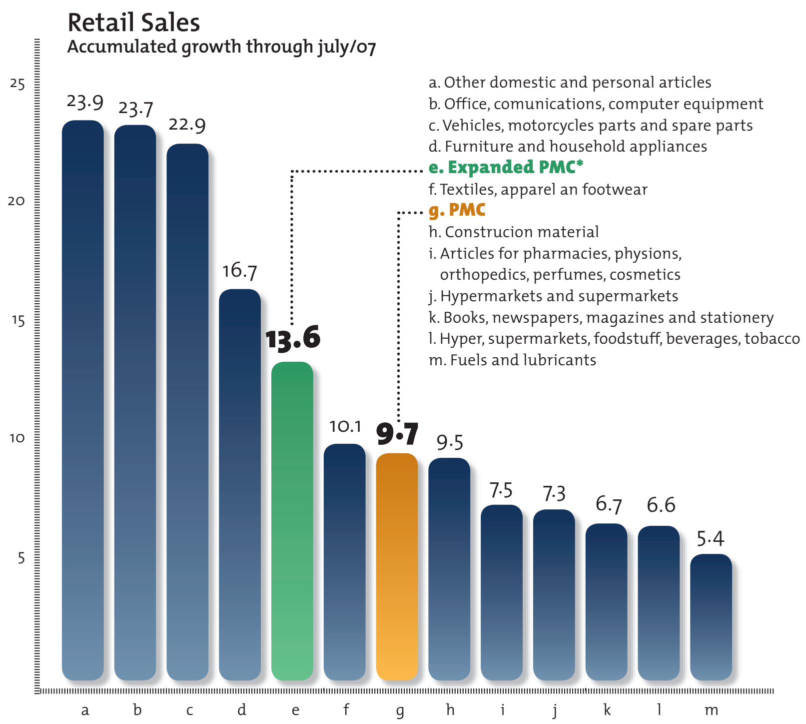
How Brazilians pay for their shopping



Sources: Ponto Frio and São Paulo Trade Association

More opportunities: 1.3 million job positions have been created until August 2007

has also increased as a result of income transfer programs such as the Bolsa Família. Created in 2003, to guarantee the right to food, education and health to all Brazilians, this program currently assists 11 million families throughout the nation. In this scenario, Brazilian income has been rising for several social strata, according to the National Residential Sampling Survey (PNAD), conducted by the Brazilian Geography and Statistics Institute (IBGE). The data show that income growth has been higher for the lower classes.



Expanded PMC includes vehicules, motorcycles, parts and spare parts, and construction material.
(*) Departmants stores, duty free, opticians, hunting, fishing and camping, watches and jewels, arts, sports articles.
Source: PMC/IBGE > Prepared by: MF/SPE

NARROWING THE SOCIAL GAP

This scenario has allowed for a sharp reduction in the poverty index, from 28.8% in 1995 to 19.3% in 2006, according to the Getulio Vargas Foundation and the PNAD (IBGE). This is a strong trend which was acknowledged by the International Monetary Fund (IMF): the World Economic Outlook, published in October 2007, mentions the narrowing of the social gap in Brazil as a model to be followed.

The phenomenon of a rising middle class is also supported by a real revolution in the availability of credit, which increased from 22.1% of GDP in 2002 to 33.1% in August 2007. Economic stability, together with decreasing interest rates, has motivated financial institutions to expand credit offerings to consumers. As for the takers, credit became more attractive with

the reduction in bank interest spreads and the creation of new financing measures. An example of that is the volume of payroll deductible loans, which rose 242% between 2004 and July 2007.

The level of consumption of Brazilian families has been increasing since the first trimester of 2004. In the first two quarters of 2007, it increased 5.7%, surpassing the 4.1% increase for the same period the previous year. Retail sales have gone up for all items, as shown by the Monthly Trade Survey (PMC), issued by the IBGE. Some items, such as computers, personal items and household appliances registered a "Chinese" growth of over 23% on average, according to the survey. Motor vehicles sales leaped 27.4%, ac-

Antônio Milena

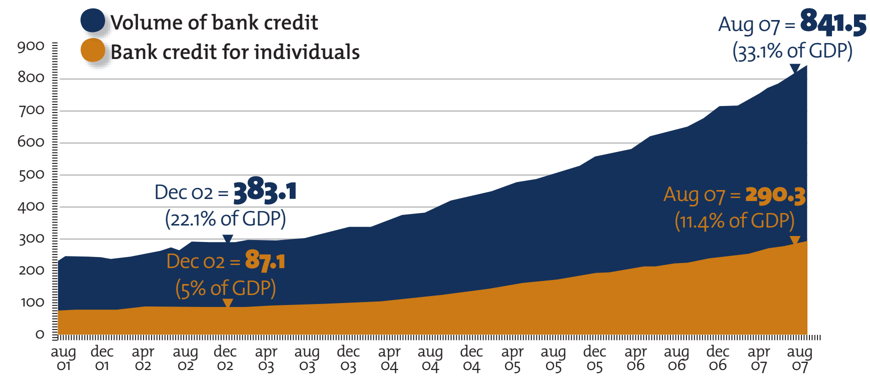
cording to ANFAVEA data. In the first seven months of 2007, carmakers broke national records, selling over a million units.

GOVERNMENT INCENTIVES

In many cases, the increase in trade and growth in several industrial sectors has been a result of government incentives. The computer sector is an example. Sales have increased as a result of benefits such as the so-called Tax Incentives Law which, among other provisions, grants tax exemptions to desktop and notebook computers priced up to R$ 4 thousand. This incentive, bolstered by better financing conditions as well as stronger measures by the Federal Police to fight smuggling, has brought more dynamism to the market. In the first two quarters of 2007, 4.3 million PCs were sold, representing a 20% increase if compared to the same period in 2006, and has helped promote social inclusion for thousands of Brazilians.

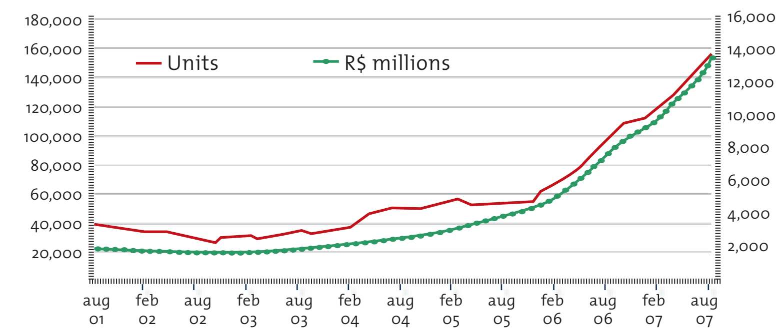
The same effect is seen in the housing sector. Measures to stimulate the real state business, such as reductions in the Industrial Product Tax (IPI) for basic civil construction inputs and the deduction of mortgage payments from payrolls, have helped thousands of Brazilians see the dream of owning a house come true. In 2006, the number of housing units financed by the Housing Financing System (SFH), reached 473 thousand, which is the largest number in 20 years. SFH financing is more widely used by the population with incomes of up to five minimum wages. Employed and with credit at hand, the new middle class has gone shopping. ●

Credit Revolution (R$ bilion)



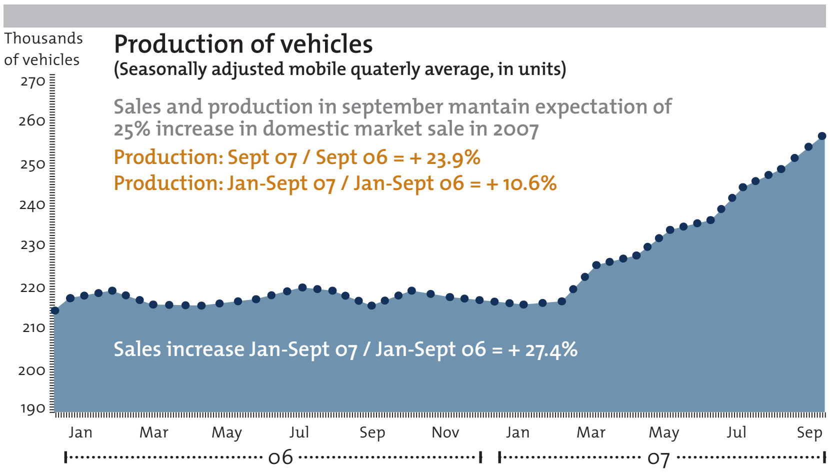
Source: Central Bank > Prepared by: MF/SPE

Individual housing - financing contracts (Contracts in the last 12 months)



Source Brazilian Savings and Loan System (SBPE) > Prepared by: MF/SPE

Production of vehicles
(Seasonally adjusted mobile quaterly average, in units)



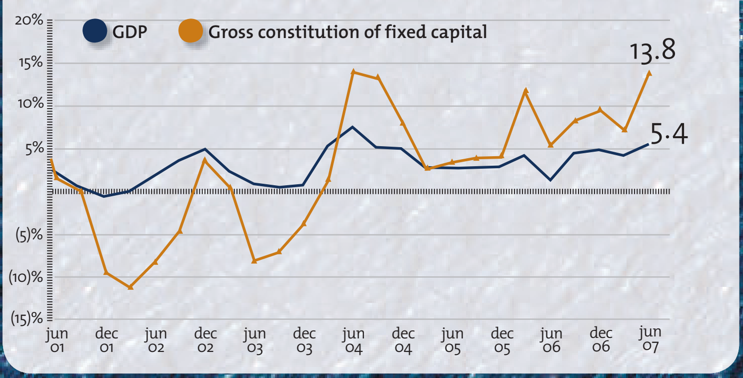
Source: National Association of Motor Vehicles Manufacturers (Anfavea) > Produced by: MF/SPE

A leap towards

The foundations for accelerating growth and improving infrastructure

Growth and high consumption usually formulate an equation that, many times, results in inflationary pressure. That is not what is happening in Brazil. The increase in investments, as of the first quarter of 2004, has lessened the menace of increasing inflation rates. Investments have expanded almost twice as much as GDP. Between April and June 2007, the increase was 13.8% as compared to the three months prior, an indicator close to that registered in 2004, one of the highest in recent years. Brazil has initiated a sustainable and long-lasting cycle, as opposed to just a spasm or bubble. It is a vigorous and well-balanced process, unlike others experienced by the country, when the economy expanded unevenly, causing inflation and indebtedness. It is therefore a process that is here to stay, for the country now has a sound financial system, expanding internal markets and profitable productive sectors.

GDP and investments
(Growth as compared to the same trimester of previous year)

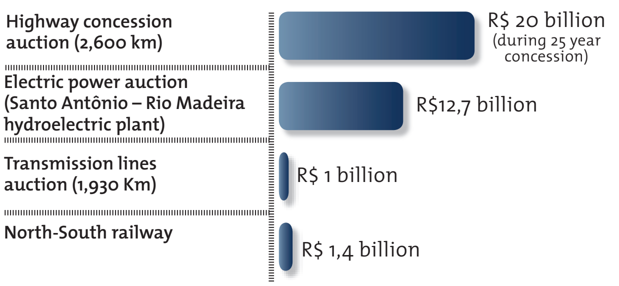


Marcos D'Paula / AE

Seashore Progress: new platforms strengthen external competitiveness

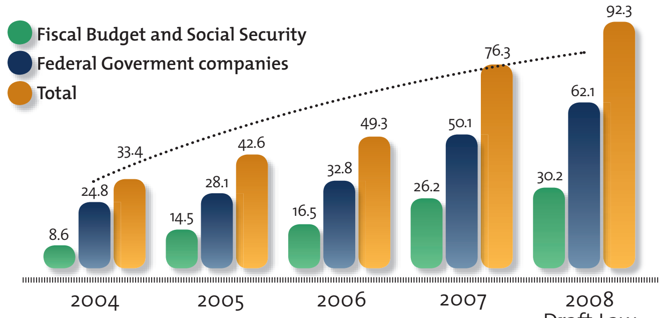
the future

Investments - round of auctions



Sources: Ministry of Transports and ANTT > Prepared by: MF/SPE

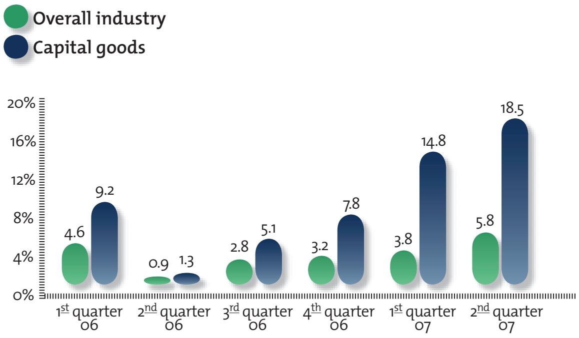
Public investment - Proposition of Budget Law 2008 (in R$ billion)



Sources: Ministry of Planning

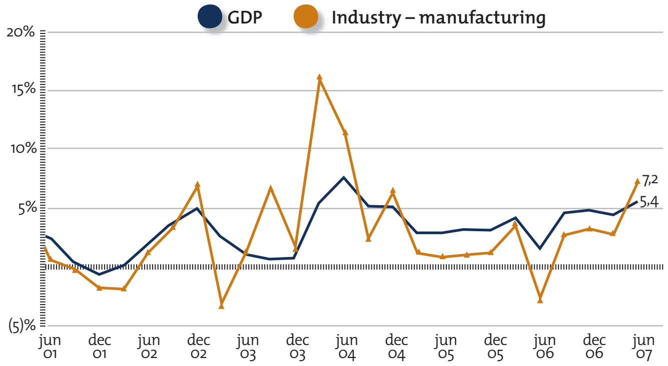
Industrial and capital goods production

(rate of growth in relation to the same quarter in the previous year)



Sources: IBGE > Prepared by: MF/SPE

GDP and industry (growth as compared to the same trimester of previous year)



PROFITS ON HIGH

The revenue of industries exceeds the returns on financial investments. In the case of large corporations of the sector, revenue in 2006 was 16.7% higher than fixed return investments (13.1%). Capitalized, the companies are investing in expansion and modernization programs that will allow for productivity gains. An indication of this dynamism is that Brazil now ranks second in the world in initial public offerings (IPOs), with approximately 10% of all new shares issued.

Industries are working at full speed. In the first semester of 2007, the industrial sector grew 4.9%, as compared to the period between January and June 2006, especially in civil construction, which is a major source of employment, and the manufacturing industry, which registered growth of 5.1%, the best performance in many years. The services sector rose 4.7% – highlighting the performance of retail sales, propelled by the mass market.

In the second quarter of 2007, industrial production increased 5.8%, as compared to 3.8% for the first three months of the year. In the capital goods industry, which is an important thermometer of the economic activity, the increase was 18.5%, above the 14.8% registered for the previous quarter. Between January and August, the most outstanding performance among capital goods providers was for those supplying the agricultural sector: parts manufacturers had an amazing 139.8% increase, while the machinery and equipment industries rose 42.5%. This is an important indication that, after the crisis faced in recent years, the Brazilian agricultural sector is rapidly recovering, breaking productivity records and preparing to lead the world agribusiness trade in the 21st century. In the capital goods segment, other noteworthy industries are energy sector and general industrial suppliers, whose production increased 19.7% and 17.7% respectively.

Highways: new concessions strenghten parternships between government and companies

J.F.Diorio/AE

Harbor modernization is one of PAC priorities

Delfim Martins

The use of industrial capacity reached 86.1%, the largest in 30 years

With this brisk performance, productive capacity reached 86.1% in September 2007, the highest in 30 years. Data are from the Getulio Vargas Foundation, based on a study of approximately 1,100 companies.

After these developments, which allowed the Brazilian economy to overcome stagnancy, the administration announced, at the beginning of 2007, the largest development plan ever implemented in Brazil—the Growth Acceleration Plan (PAC). With projects reaching US$ 503 billion by 2010, financed by both the public and private sectors, the objective of the PAC is to expand and modernize the country's infrastructure, eliminating major bottlenecks which hinder growth, reducing costs, increasing productivity, stimulating more corporate investments, and reducing regional inequalities.

The proposition is to lay the groundwork for a new economic leap forward, thus fostering consistent and rapid growth, the generation of employment, and the improvement of the standard of living of the population. Investments will benefit strategic sectors such as energy and transport

MAIN REDUCTIONS AFFECTING TAX REVENUE - 2004 to 2008

LEGISLATION	PERIOD: 2004 A 2006	VALUES*
Law nº 10.925/04	Reduction to zero of PIS/Cofins contributions on agribusiness sales and credit	3,596
	Reduction to zero of PIS/Cofins contributions on rice, beans and cassava flour	
Law nº 10.996/04	Exclusion of R$100 from the personal income tax calculation base of overall salary income	492
Law nº 11.033/04	Rates based on duration of application and reduction of rates for investment funds from 20% to 15%	1,897
	Expansion of IPI-Others incidence period from bi-weekly to monthly	
	Reduction to zero of PIS/Cofins rates on books in general	
Law nº 11.051/04	Capital good depreciation credit discounted from net profit; reduction of PIS/COFINS credit use period for capital goods from 48 to 24 months	2,739
	Reduction to zero of PIS/Cofins contributions on corn meal and milk	
Law nº 11.053/04	Taxation of retirement plans upon redemption or when benefits are paid	183
Law nº 11.196/05	Export incentive (*) RECAP – Special Regime for the Purchase of Capital Goods for Exporting Companies (Cofins/PIS)	5,320
	Digital Inclusion Program – Retail sales of PCs (Cofins/PIS)	
	Technological Innovation – Deduction from corporate income tax and net profit of basic tech research expenditures	
	Tax collection period	
	Retention of PIS/Cofins for car parts	
	Zero PIS/Cofins rate for powder milk and cheese	
	Petrochemical nafta. PIS/Cofins at 5.6% and credit at 9.25%	
	Increase of the *Simples* limits	
Law nº 11.119/05	10% correction of personal income tax rate	2,245
Law nº 11.311/06	8% correction of personal income tax rate	2,210
Decree nº 4.902/03	Extension of automobile agreement to Feb/04	77
Decree nº 5.058/04	Reduction of IPI-Automobile rates	
Decree nº 4.955/04	Reduction of average IPI rate on capital goods from 5% to 3.5%	1,384
Decree nº 5.173/04	Reduction of average IPI rate on capital goods from 3.5% to 2%	
Decree nº 5.468/05	Reduction of average IPI rate for capital goods	
Decree nº 5.164/04	Reduction to zero of PIS/COFINS rates on financial revenue obtained by businesses, subject to non-cumulative incidence of said taxes	266
Decree nº 5.172/04	Reduction of IOF rates on life insurance policies	432
Decree nº 5.697/06	Reduction of IPI rates on construction inputs	1,060
CAMEX Resolutions	Reduction of import tax	907
	SUBTOTAL [A]	**22,809**

PAC MEASURES - 2007/2008

Law nº 11.482/07 and Law nº 11.434/07	4.5% correction of corporate income tax base; Extension of accelerated depreciation mechanism with CSLL credit; Extension of the inclusion of the civil construction sector in the PIS/Cofins cumulative regime	6,231
(MP nº 340/07)	Taxes involved: IRRF-Labor, IRPF, CSLL, CPMF, PIS/PASEP and Cofins	
Complementary Law	Introduction of national Simples regime, promoting a comprehensive change in tax calculation and payment	3,873
nº123/06	Taxes involved: IRPJ, CSLL, PIS/PASEP, Cofins, Social Security contributions, and IPI	
Law nº 11.488/07 (MP nº 351/07)	Elimination of PIS and Cofins for buildings and infrastructure with the creation of the Special Infrastructure Development Incentives Regime - REIDI	3,397
	Taxes involved: PIS/PASEP and Cofins	
Decree nº 6.024/07	Elimination of IPI for the purchase of steel slabs	63
	Taxes involved: IPI	
Decree nº 6.023/07	Creation of the Digital Inclusion Program, with the increase of the PIS/Cofins exemption limit on PCs from R$ 2,000 to R$ 4,000.00	244
	Taxes involved: PIS/PASEP and Cofins	
	SUBTOTAL [B]	**13,808**
	GRAND TOTAL	**36,617**

* In R$ million

– ports, airports, highways and railways – and the social infrastructure (urbanization of slums, sanitation, housing and public transportation).

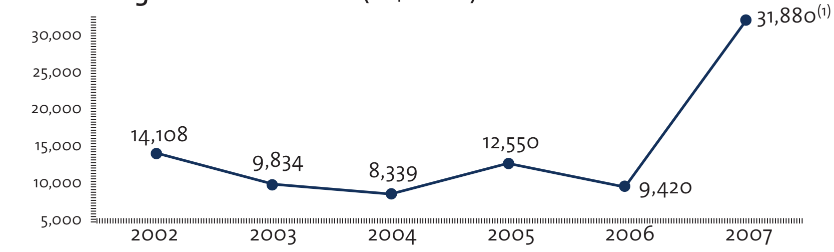
PAC also calls for other measures – some of them already in force – to remove (bureaucratic, administrative, normative, legal and legislative) hindrances to growth, stimulating credit and financing, speeding up environmental licensing processes, reducing taxes and implementing long-term fiscal measures.

NEW CONCESSIONS

PAC is a bold project. Several other initiatives are expected to stimulate business even further, such as the rounds of auctions that will create new partnerships between government and companies. The list began with concessions to operate 2.6 thousand kilometers of federal highways, which should bring in to the public treasuries approximately R$ 20 billion over the next 25 years. The process successfully began in October 2007, when three companies – two of which were foreign – won the bid for stretches of two of the main Brazilian highways. Auctions also include projects in the energy industry (such as the Santo Ant™nio hydroelectric plant, on the Madeira river, expected to generate 3,168 megawatts) and railways.

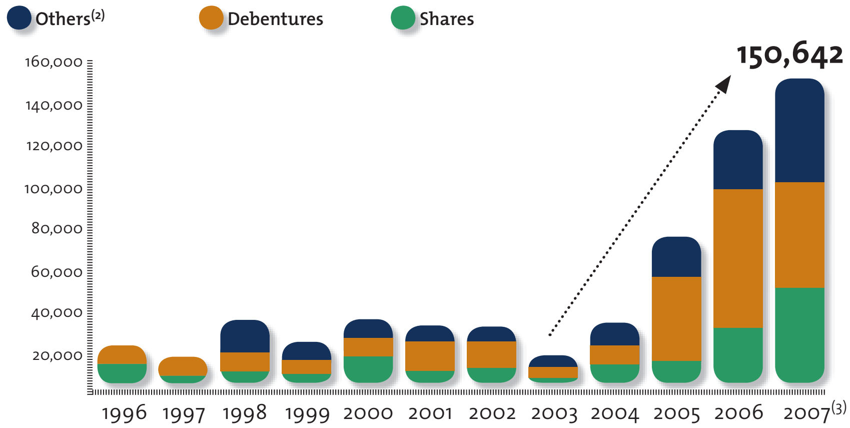
Companies are projecting heavy investment over the next years. Vale do Rio Doce has recently announced an expansion project that will require resources of approximately US$ 59 billion, US$ 11 billion of which will be invested in 2008. This is the largest project ever implemented by a private company in the country. The Votorantim Group, an entrepreneurial conglomerate that operates in segments such as paper and cement, is preparing to invest R$ 25.7 billion to expand business. Over the next three years, carmakers and car parts manufacturers investments should reach a total of US$ 15 billion.

Direct foreign net investment (US$ billion)



(1) From January to August 2007.

Capital market primary and secondary issues (R$ million)



(2) Includes promissory notes, IRCs, investment fund quotas, among others > (3) Cumulative 12 month issues to September/07 > Source: CVM > Prepared by: MF/SPE

The government continues to stimulate private investments through a series of measures, including the reduction of taxes. Taxation was reduced for basic food items, civil construction, investments, and through income tax adjustments, reaching R$ 36.6 billion in 2007.

The immediate challenges for Brazil are the discussion and approval of a tax reform, the reduction of the overall tax burden, the improving of current expenditure controls, and the obtaining of investment grade classification from rating agencies. According to analysts, these measures are expected to attract, in the short-term basis, almost US$ 50 billion in direct foreign investments as of 2008.