

Economic summary

Inflation/ Unemployment

The General Price Index recorded 17.8% in January and 250.4% from Jan.85 to Jan.86. The Wholesale Price Index was up by 19%, the Consumer Price Index 15.7% and the National Construction Price Index by 14%.

The Widened Consumer Price Index was the highest ever: 16.23%. The six-month variation rate reached +101.41% and the 12-month (Feb.85-Feb.86) reached +238.36%, both top rates again.

The National Consumer Price Index in January was 17.2%, the six-month rate was 100.4%, and the 12-month one 237.4%, all of them top rates.

The jobless rate in December was the lowest since 1982: 3.5%. Although December usually displays the lowest unemployment rates, this last index is better than that of Dec.84 (4.8%); Dec.83 (5.6%) and Dec.82 (4%).

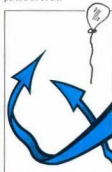
Industrial production went up by 3.1% from January to

November last year as against the same period in 1984. It was a consequence of the development of the mining and the transformation industries.

Electrical energy increased by 10.2% in 1985 comparing with the year before. This figure was lower than the 12.2% previously recorded.

The last estimates concerning the area of cultivated land show shrinking on it again. In fact, the total cultivated area with the main crops shrank by 1.8%, comparing the most recent estimates with those of the end of last year.

Brazilian steel production grew by 11.3% in Jan.-Dec.85. In December alone the increase was 18.3% as against the same period in 1984.



Fiscal policy

The National Treasury collected Cr\$134,464 billion in 1985. It was up by 17.5% in real terms and surmounted the early budget forecast by Cr\$52,148 billion.

Income tax collected net Cr\$52,904 billion last year, when it was 32.8% above the amount collected a year earlier, in real terms. This tax was benefitted by the economic resumption in the last few months of the year, which created thousands of new jobs besides raising salaries in real terms.

The second biggest share in revenues was the tax on industrialized products. Its collection of Cr\$19,178 billion represented 12.2% of total revenues and expanded by 30.1%.

The tax on financial operations brought in Cr\$7,182 billion. This figure shows a drop of 27.2% in real terms as against the year before, consequence of oil imports being exempted from this tax since Oct.84.

Among the non-fiscal revenues, the contributions to Finsocial, PIN and Proterra, welfare quotas and the contribution to education-wage made up 12% of the total National Treasury's income.

Expenditure stayed at Cr\$121,209 billion, displaying a 6.1% drop in real terms as compared with the year before.

Financial resources to the states and cities through the sharing funds totalled Cr\$21,057 billion (17.4% of expenditure), rising by 49.4% in real terms. This increase is due to a larger participation of these funds in the revenues from the income tax and the industrialized products tax.

Monetary policy

Attention to priority areas such as those of agriculture, export, foreign, and domestic debts, pushed the money supply up to Cr\$101.3 trillion at the end of last year. On average terms, it got to Cr\$90.1 trillion, expanding by 304.4% as against 69.3% in 1982, 106.3% in 1983 and 178.3% in 1984. Considering the variation rates of the General Price Index, the money supply grew by 20.7% in real terms. This figure is far superior to the earlier estimated 8% growth of the GNP over the same period. Among the M_1 components, the stock of paper-currency in the hands of the public increased by 280% (232.1% in 1984), demand deposits in

commercial banks were up by 20.4% in Nov.85, by 42.9% in Dec.85, and by 334.1% over the year (187.7% in 1984). In 1985 the balance of paper-currency grew by Cr\$21 trillion, making up 84.3% of the balance of M_1 in Dec.84. This is indeed the highest ratio in the last few years. In 1982 the ratio "paper-currency issued"/"balance of M_1 in the previous year" reached 20.9%; in 1983 22.1%, and in 1984 62%.

The monetary base mounted to Cr\$52.8 trillion on 31 Dec.85, expanding by 262.9% as compared with 191.3% in 1984.

Banco do Brasil's transactions exerted a net expanding impact of Cr\$20.8 trillion.

Among its loans laid out, 39.5% of the total amount went to agriculture, 10.5% to floor prices and coffee operations, 10.7% to Finex transactions, 5.7% to trade and industry, and 23.4% to other areas.



Balance of payments

The overvaluation of the Cruzeiro as against the U.S. Dollar in 1985 had two main features:

- the small difference between the figures of the beginning and the end of the year (11.3% in January and 9.6% in December);
- the large difference among these percentages throughout the year.

These oscillations are certainly due to the frequent changes in the exchange policy. The relative stability in the first three months of the year is explained by the exchange indexing rates having been the same as the domestic inflation rates in each month.

The new exchange policy of March 15 stated that the nominal devaluations of the Cruzeiro in a given month would equal the average inflation rate of the previous three-month period. At the same time there was a severe price control, which made the monthly inflation rate drop from 12% to rates between 7 and 8%. Thus, in April, March and June, the exchange indexing rates – reflecting the past inflation – stayed above these months' inflation rates, because these were being held down by

the Inter-ministerial Council of Prices (CIP). As a consequence, the overvaluation of the Cruzeiro vis-à-vis the U.S. currency decreased from 12.2% in March to 6.7% in April, 1.8% in May, 0 (zero) in June and -1.3% (real appreciation) in July.

The Brazilian trade balance displayed a US\$12,440 million surplus in 1985, as a result of US\$25,638 million in exports and US\$13,198 million in imports. This surplus was slightly inferior to that of 1984 – US\$13,089 million –, but still very promising.



Financial markets

At the end of 1985, the balance of financial assets reached Cr\$943,085 billion, having grown by 15.8% in real terms, the highest rate since 1981, when it increased by 24.7%. Monetary assets expanded by 22% and the non-monetary by 13%, both in real terms. Growth above inflation had not happened since 1978 due to the tight monetary policy.

Excluding the Monetary Authorities' portfolio with government's securities, total financial assets went up to Cr\$779,388 billion, showing real increase of 14.7%. Owing to the strong monetary expansion in 1985, the monetary assets' participation in total financial assets rose from 10.7% in 1984 to 11.3% in 1985.

Federal public debt reached Cr\$402,733 billion, having increased by 33.1% in 1985, as against 9.6% in 1984, and 4% in 1983. The balance of securities in the hands of the public, i.e., excluding those with the Monetary Authorities, was Cr\$239,036 billion, increasing by 42.9% in 1985 as against 68.3% in 1984. Thus the proportion of securities in the hands of the public rose to 59.4% as compared with 55.3% in 1981 and 36% in 1983. These rates display a tendency for the Central Bank to absorb fewer securities formerly placed in the market.

Net withdrawal of federal securities in 1985 was Cr\$6,851 billion, as compared with Cr\$9,830 billion in 1984.

Nominal interest rates in the free area of the market tended to decrease as against 1984, however they were still in high levels.

Summary by
Maria Luíza Altieri