



OXFORD ANALYTICA

BRAZIL

MONETARY TRANSPARENCY

Country Report 2006

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BRAZIL



COMPLIANCE RATINGS

<i>Monetary transparency</i>	2006	2005	2004	2003
.....				
Clarity of roles	●●●	●●●	●●●	●●●
Open decision process	●●●●	●●●●	●●●●	●●●●
Availability of information	●●●●●	●●●●●	●●●●●	●●●●●
Central bank accountability	●●●●	●●●●	●●●●	●●●●
Score	4.00	4.00	4.00	3.75

OUTLOOK & COMMENTARY

Even though Brazil largely complies with the IMF 'Code of Good Practices on Transparency in Monetary Policy', the legal independence of the Central Bank of Brazil (BCB) -- currently operating under a *de facto* autonomy -- is still considered an issue of concern. Only a law approved by Congress can grant BCB independence, and the widespread perception is that no major changes can be expected in the near future.

The establishment of a special Ethics Committee at the BCB -- with the task of preparing specific rules of conduct for its officials -- represents a significant advance in its governance procedures and is likely to improve monetary transparency. Publicly available information is of a high quality and the BCB remains committed to further improvements in the timely dissemination of information. The accumulation of international reserves will continue during the next year, allowing the country to further reduce its external debt commitments.

EXECUTIVE SUMMARY

4.00 Compliance in progress

No major changes have affected the framework of Brazil's monetary policy this year. The Central Bank of Brazil (BCB) still lacks legal independence and no progress has been made on the subject during Lula's first term in office. This year, both the election campaign -- during which central bank's autonomy was not discussed -- and investigations over corruption allegations against government officials and members of parliament put the debate on BCB's independence aside. These issues need to be addressed: many believe central bank independence would allow the BCB to achieve its inflation target with lower interest rates, lower trade tariffs, a simpler tax system and, above all, a long-term plan to reduce spending and the net public debt.

The National Monetary Council (CMN) -- composed of the minister of finance, the minister of planning and budget, and the BCB governor -- is the government's most important economic decision-making body and is responsible for general monetary policy decisions, including setting the headline inflation rate and deciding about foreign exchange and credit policies. The most important body within the BCB is the Monetary Policy Committee (COPOM) -- tasked with setting short-term interest rates in line with the headline inflation target set by the CMN.

BCB's information is timely and user-friendly. Brazil meets high international standards in disclosing monetary policy objectives and progress assessments. It subscribes to the IMF's Special Data Dissemination Standard (SDDS), and meets its standards for monetary reporting. A number of regular BCB publications -- including an *Inflation Report*, a *Monthly Bulletin*, and a *Financial Stability Report* -- are publicly available. Starting this year, the central bank discloses monthly information on its balance sheet (including audited revenues and expenditures, income statements, cash flows, and explanatory notes). These data are compared with results from the previous year. Additionally, the *Bi-Annual Balance Sheet Report* -- released in June and December each year and submitted to Congress -- is now prepared according to the International Accounting Standards issued by the International Accounting Standards Board (IASB).

The Investor Relations Department within the central bank is in charge of collecting information used in the *Market Expectations Report* (MER), which is based on the main short and medium-term macroeconomic forecasts prepared by independent analysts and consulting firms. This year, the central bank has taken advantage of favourable macroeconomic conditions to build official international reserves and repay external debt -- including the early repurchase of all outstanding obligations to the IMF, repayments to Paris Club creditors, and buybacks of private external debt. The authorities have liberalised foreign exchange regulations and eliminated the tax on foreign holdings of public securities.

Brazil's overall score remains unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES OF CENTRAL BANKS

●●● Enacted

The objectives and institutional framework of monetary policy

Central bank objectives and responsibilities

Brazil's institutional framework for monetary policy is set out in the Law 4.595 of 1964 (as amended) and the Decree 3.088 of 1999, which establish inflation targeting as one of the main central bank objectives. This Law regulates the Brazilian financial system, and provides the legal foundations of the Central Bank of Brazil (BCB) and the National Monetary Council (CMN). As the government's most important economic decision-making body, the CMN is responsible for general monetary policy decisions, including setting the headline inflation rate, and deciding on foreign exchange and credit policies. The CMN is also responsible for regulation and supervision of financial institutions. The minister of finance (who serves as its chairman), the minister of planning and budget and the BCB governor are the three voting members of the CMN, whose decisions are then implemented by the BCB.

The central bank's main objectives are the promotion of the Brazilian currency's purchasing power stability and the regulation and supervision of the national financial system. However, the need to adjust money supply and interest rates to promote sustainable economic growth and development complement these main objectives. Among the BCB duties are the formulation and management of monetary and foreign exchange policies, in accordance with the guidelines set by the government and the management of the Brazilian Payment System.¹

The government's 2004-2007 Multi-Year Plan (PPA) outlines BCB objectives and guidelines, including a strong commitment to transparency. Quality of information should become more timely and user-friendly, with a reduction in its production costs. Integration of planning, budgeting and financial control systems, as well as assessments of organisational performance should be strengthened through a better use of available resources.²

The Monetary Policy Committee (COPOM) is the most important body within the BCB. Created in 1996, the COPOM sets short-term interest rates in line with the headline inflation target set by the CMN. The interest rate target set by the COPOM is also the target for the interest rate of the *Sistema Especial de Liquidação e Custódia* (SELIC), and the interest rate for overnight inter-bank loans collateralised by government bonds registered with and traded on the SELIC. The COPOM ultimately decides on monetary policy in order to achieve the inflation target set by the CMN.

Operational autonomy

Brazil's central bank is not legally independent, but in practice enjoys substantial operational autonomy.³ Its autonomy reflects its success in building credibility as an inflation-fighting institution since 1999. The IMF has observed that formal central bank autonomy could help solidify the monetary framework.⁴ Consistent policy decisions taken by the past two different administrations have been a key component of monetary policy consolidation, which has resulted in increased *de facto* autonomy of the central bank.

The approval of Constitutional Amendment 40 in May 2003 -- which relaxed certain procedural restrictions imposed on the national monetary and fiscal systems -- has made reform of the central bank's legal status easier both at the political and procedural level, by making it possible through a supplementary law. While the amendment has had no

legal impact on the status or operations of the BCB, it is a first symbolic step that shows the government's will to introduce a bill extending legal autonomy to the central bank.

However, not only will a reform of BCB operations (including its operational autonomy) require central government's efforts, but also consensus at the congressional level, especially within the governing Workers' Party which currently appears divided on this issue. Some commentators have suggested that the government has not yet settled on a model for central bank independence/autonomy. Draft bills affecting the BCB's status have been prepared individually by a number of legislators, but these are unlikely to be discussed until the government defines a broad strategy to address central bank autonomy.

This year, both the combination of the election campaign -- during which the central bank's autonomy was not discussed -- and the investigations over corruption allegations against government officials and members of parliament have put the debate on BCB's independence aside. Even though several government officials and BCB staff remain determined to institutionalise the BCB's *de facto* autonomy, commentators remain doubtful of the possibility of making significant progress in the near future. Ensuring the BCB's *de jure* independence would help develop credit markets further, reduce output volatility, and increase the effectiveness of monetary policy.⁵

Institutional relationship between monetary and fiscal operations

Lending to government

Article 164 of the Federal Constitution forbids the BCB from financing the National Treasury. In particular, the central bank may not grant loans to the treasury or to any agency or entity that is not a financial institution. Also, it may not buy primary issues of federal debt. In addition, the Fiscal Responsibility Law (LRF) prohibits the central bank from issuing securities in order to finance federal government debt.⁶ Treasury balances held at the central bank are remunerated at the average interest rate for all government securities in the BCB's portfolio. Outstanding credits, advances, and overdrafts made by the BCB to the government are reported in the BCB's accounts.

Central bank involvement in the rest of the economy

The only significant involvement of the central bank in the rest of the economy is through its control of two commercial banks transferred to the BCB for recapitalisation and re-privatisation -- *Banco do Estado de Santa Catarina*, and *Banco do Estado do Piauí*. The *Banco do Estado do Ceará* was privatised this year. Also in 2006, the withholding tax for foreign investors was eliminated.

Central bank profit allocation

Allocation of central bank profits is specified in Article 7 of the LRF and in the Provisional Measure 2179-36 of 2001. Under the law, all central bank financial assets are classified as National Treasury revenue. Any profits must be transferred within ten business days after the approval of the bi-annual balance sheet. Any negative balances will be classified as a National Treasury liability, and the Treasury will cover the loss within ten days from the approval of the balance sheet. Should the CMN deem it appropriate, and with the agreement of the BCB's governor, the central bank may retain up to 25% of any profits.⁷ The LRF also requires that the impact and fiscal cost of the central bank's operations be stated quarterly in the federal government's Budgetary Directives Law. Information on these items is also included in the explanatory notes of the BCB's balance sheet, the breakdown of which is reported on the BCB's website.

Agency roles performed by the central bank on behalf of the government

The BCB manages the National Treasury account on behalf of the government. Starting in January 2005, the management of external debt has been fully transferred from the BCB to the National Treasury. All management stages, including the establishment of guidelines and strategies, risk management, market decisions and budgetary controls are now centralised at the Treasury. The transition process has been conducted smoothly, with close collaboration between both institutions, and has increased efficiency in debt management -- including long-term planning -- and information disclosure.

The BCB represents the Brazilian government in its dealings with international organisations such as the IMF and the Bank for International Settlements. Open market operations conducted by the BCB are reported in the monthly *Domestic Federal Public Debt and Open Market Operations Monthly Press Release*, published jointly by the BCB and the National Treasury and available online.⁸

A comprehensive regulatory framework to combat money laundering is in place. Law 9.613 of 1998 and sector-specific regulations broadly ensure financial sector compliance with this framework. Some deficiencies should be addressed, like the legal enactment of informal agreements and the provision of legal assistance outside treaty obligations. Moreover, bank secrecy limits the ability of the securities regulator to supervise the sector fully and to exchange information with foreign counterparts.⁹

A National Strategy against Money Laundering (ENCLA) was formulated in 2003, and stipulated the establishment of a group to articulate joint efforts of different government organisations, the Judiciary and the Public Prosecutor Office (MPU). Following the creation of the Council for Financial Activities Control (COAF) and the Department of Surveillance of Illegal Activities and Supervision of Foreign Exchange and International Capital Flows (DECIC), other initiatives have been taken, including the establishment of several regional courts specialising in money laundering and the creation of the Department of Assets Recovery and International Judicial Cooperation (DRCI) within the Ministry of Justice.¹⁰

2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS

●●●● Compliance in progress

The framework, instruments and targets of monetary policy

Framework and monetary targets

The framework, instruments, and targets of monetary policy in Brazil are clear and publicly available. The BCB website includes a concise description of the procedures and practices followed with regard to monetary policy instruments. Under Decree 3.088, Brazil adheres to an explicit inflation-targeting regime for monetary policy. Under the FRL, the federal government's Budgetary Directives Laws (which are sent to the Congress six months before the year's draft budget) must include an appendix containing the objectives of the monetary, credit, and foreign exchange policies, as well as the parameters and projections for major aggregates, variables and inflation targets for the subsequent year.¹¹ In practice, managing the value of the currency has been relegated to a secondary role but remains important. According to a recent IMF assessment, the central bank's skilful and resolute approach to monetary policy through this inflation-targeting regime has played a vital role in the current macroeconomic framework by anchoring inflation expectations.¹²

Brazil has experienced large adverse shocks in the past, which made the attainment of inflation targets more difficult. The BCB commitment to high standards of transparency and a good communication strategy, together with a well-trained staff, has allowed the BCB to maintain credibility in such an environment.¹³ The BCB's adherence to inflation targeting appears to be stricter than in previous years. For 2005, the target was fixed at 4.5% with a 2.5% band on either side. The relatively large interval for inflation targeting (2-7%) has been reduced this year -- and will continue during 2007 -- with a 4.5% target and a 2% band on either side.

The BCB is charged with conducting foreign exchange operations with the objective of promoting a gradual accumulation of international reserves, having fulfilled the needs of the National Treasury for payments of interest and principal on bonds and of Paris Club liabilities.¹⁴ The current BCB foreign exchange purchasing policy, which began in January 2004, is guided mainly by liquidity conditions in the market. According to BCB officials, the process should be understood as an effort to accumulate international reserves in the context of an inflation-targeting policy framework with a floating exchange rate. It should not be confused with the establishment of any other targets for central bank action, such as a floor or a ceiling for the exchange rate.¹⁵ International reserves have continued to increase this year, reaching a record high of more than 78 billion dollars at the end of October.

In the past year, the central bank has taken advantage of favourable conditions (positive financial market sentiment, ample global liquidity, and rising capital inflows) to build official international reserves and retire external debt. In December 2005, Brazil paid in full -- and earlier than expected -- its entire outstanding obligations to the IMF, amounting to 15.46 billion dollars. The payment to the Fund was done by the central bank, on behalf of the National Treasury. Additionally, on April 18th of this year, the National Treasury exercised its call option at par involving the remaining stock of Brady Bonds on the market. This measure aimed at eliminating all securities issued in the Brady Plan context. These bonds resulted from the external debt renegotiation that began in the 1980's and finished in 1994.

In March 2005 -- following the National Audit Court's recommendations -- the government made a further step towards the full liberalisation of the foreign exchange market. The opening, imposed by BCB Resolution 3.265,

facilitates the purchase of dollars and their transfer abroad, abolishing limits on volume and legal restrictions. Anyone is now able to buy and transfer dollars or other foreign currencies to other countries, in any amount, with the sole requirement of informing the authorities on the purpose of those transfers. The measure eliminates all controls on capital flows, and aims to attract investment on the assumption that capital will enter the country more freely if it can be withdrawn easily.¹⁶ During 2006, the authorities have also taken advantage of favourable external conditions to liberalise foreign exchange regulations and eliminate the tax on foreign holdings of public securities.

BCB relationships with counterparties are specified in a series of circulars delivered directly to financial institutions and available on its website.¹⁷

Monetary instruments

The central bank employs a variety of instruments to achieve its monetary policy objectives, including open market operations and liquidity support loans. Once the headline inflation target has been set by the CMN, the BCB sets the SELIC interest rate, a key instrument for monetary policy.

The BCB exercises monetary and credit controls by setting reserve requirements for commercial banks and through bank re-discount policies. In addition, interest rate ceilings and mandatory rate reductions are used. The government also imposes lending requirements on banks, although they have been reduced in recent years. For example, it requires commercial banks to set aside a portion of their net deposits for agricultural loans and house lending facilities. There are additional limitations on credit in the form of reserve requirements on both time and demand deposits and on credit-allocation requirements for small businesses.

The monetary policy-making body

Monetary board

The Monetary Policy Committee (COPOM) is composed of the nine members of the BCB's Board of Directors: its governor and the deputy-governors for Monetary Policy, Economic Policy, Special Studies, International Affairs, Financial System Regulation, Financial Supervision, Bank Liquidation and Privatisation, and Administrative Affairs.¹⁸ The governor holds the deciding vote in cases where the COPOM is evenly split on a monetary policy decision. The BCB's website contains a detailed description of the COPOM's composition, structure and practices.¹⁹

The COPOM is charged with setting the SELIC interest rate target, which is fixed for the period between regular COPOM meetings. The COPOM can also establish a monetary policy bias at its regular meetings. This authorises the governor to alter the SELIC interest rate target in the direction of the bias at anytime between regular COPOM meetings. If inflation breaches the target set by the CMN, the governor is required to write an open letter to the minister of finance explaining the reasons why the target was missed, as well as the measures required to bring inflation back to target, and the time period over which these measures are expected to take effect.

Procedures for appointment of central bank officials are specified in Law 4.595. The president appoints the governor and deputy governors, who are eventually confirmed by the Senate. However, the legislation does not specify the terms of office for high BCB officials, who can be removed at any time by the president without the Senate's approval.

Advance meeting schedule

The BCB's website includes an annual advance meeting schedule for COPOM meetings -- available in October each year. Between 2000 and 2005, the COPOM's regular meetings were held once a month. Starting this year, and due

to the country's stable economic situation, COPOM's meetings are held eight times a year and last two days. They begin on a Tuesday and continue on the following day. The calendar of COPOM meetings on the BCB website is regularly updated, and explains activities in detail. Eight days after each meeting, the committee releases the minutes via the website. These minutes discuss the considerations behind COPOM decisions and include dissenting views if the decision is not unanimous. In addition, short statements are released immediately after COPOM meetings.

Public statements on monetary policy

Periodic publications

The BCB has a comprehensive set of regular publications, all of which are available on its website in both Portuguese and English. Data on the monetary base and its components are published in the monthly press release on monetary policy and credit and in the BCB's *Monthly Bulletin*. Information publicly available through the *Monthly Bulletin* includes detailed data on capital and financial markets, public finance, balance of payments, and an overview of the international economy. In addition, explanatory notes are provided for some chapters. At the end of each quarter the COPOM publishes the *Inflation Report*, which provides detailed information on economic conditions, as well as on inflation projections from its most recent meeting. In recent years, information available through the *Inflation Report* has increased, and now includes an analysis of the economic activity and price evolution; credit, monetary and fiscal policies; as well as an inflation outlook. Economic indicators are available on a weekly basis.

The *Financial Stability Report* -- published twice a year since 2002 -- provides information on the condition of the financial system, including banking sector assets and liabilities, exchange rate exposure, and capital adequacy ratios. The publication also describes the condition of the country's payments system and reports on any changes to the framework of prudential regulation. Stress scenarios and their monetary implications are also outlined.²⁰ The *Financial Stability Report* has developed into an important reference tool, providing a reliable picture of the position and operations of financial institutions.

To generate its forecasts, the BCB uses its own macroeconomic model, based on projections prepared by its Economic and Research Departments. While not all the variables and parameters of the model are made public, Working Papers posted on its website provide some detail about the model and the assumptions used.

Public hearings

The BCB is not legally required to conduct public hearings or consultations before monetary policy changes. In practice, however, the central bank's staff meets on a quarterly basis with economists from the private sector and representatives of various economic sectors to discuss their views on regulatory and monetary policy. The BCB also has an active policy of seeking feedback from social sectors affected by monetary policy decisions.

Regulations on data reporting by financial institutions to the central bank

The BCB is in charge of monitoring and regulating the country's financial system together with other government entities. Its responsibilities include the regulation, authorisation and monitoring of the activities of leasing companies, real estate credit companies, savings and loan associations, the National Rural Credit System (SNCR), and the Farming Activity Guarantee Programme (Proagro).²¹ The regulation, authorisation and monitoring of the activities of mutual funds, previously a responsibility of the BCB, were transferred to the Securities and Exchange Commission of Brazil (CVM) in April 2004.²²

A critical element of the central bank's supervisory process is the on-site inspection of financial institutions. Monitoring and systematic analysis of their financial reports to assess the risks assumed by these institutions, and control of compliance with established limits and other regulations are essential parts of the BCB's supervisory tasks.²³ These duties are conducted through an off-site supervision process. A Supervision Manual assists central bank officials in performing on-site inspections and off-site monitoring, and it enables financial institutions and the general public to become familiar with the objectives and procedures adopted by the BCB.²⁴ Administrative procedures undertaken by the BCB to sanction financial institutions are reported on its website.²⁵ In 2004, *Banco Santos* -- a middle-size bank in São Paulo state -- was subject to an intervention by the BCB in accordance with established regulations.

The central bank releases -- on a quarterly basis -- a report on the largest fifty bank conglomerates and independent banking institutions operating in Brazil, ranking banks -- in decreasing order -- based on their 'Total Assets Less Brokerage'. The first version is released 60 days after the end of the quarter, with the second and final one released 30 days later. In accordance with Law 4.595, financial institutions must determine their income as of June 30 and December 31 of each year, in observance of the accounting rules established by the CMN.

The BCB produces a Document Catalogue (CADO) listing all the documents that institutions are obligated to submit to it. It also publishes an Accounting Plan of National Financial System Institutions (COSIF), which describes accounting records and the different types of accounts to be used by any institution, cooperative, bank, distributor, or broker. Both documents are available by subscription. Legal provisions, aimed at subjecting the financial system to the anti-trust authority, were submitted to Congress but little progress has been made in this area during the past year.

In July 2005, a new supervisory structure started to operate at the BCB, increasing efficiency in performing its duties. This structure is the result of a strategic review and analysis of supervisory activities, and aims to bring together similar or complementary processes under a common organisational unit. The change also takes into consideration the growing need for better coverage of credit unions, micro-credit agencies, and financial institutions that are not subsidiaries of banking conglomerates.

In December 2004, Brazil released a timetable for implementation of the International Convergence of Capital Measurement and Capital Standards -- commonly known as Basel II.²⁶ The framework lays out the broad elements for implementation of the three pillars of the new capital accord, to be applied uniformly to all institutions within the Brazilian financial system regardless of nationality of ultimate ownership. Basel II principles are being implemented gradually following the current 2005-2011 schedule.

3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY

●●●●● Full compliance

Release of central bank data

Brazil subscribes to the IMF Special Data Dissemination Standard (SDDS) and meets its requirements for coverage, periodicity, and timeliness of monetary data.²⁷ Timely information on the country's monetary base is publicly available. An advance release calendar giving one quarter ahead notice of approximate release dates is published on the central bank's website and on the IMF Dissemination Standards Bulletin Board. A release calendar for the following year is published each December on the BCB's website. A regular notice on the advance release calendar is also published in the *Monthly Bulletin*.

Data on the analytical accounts of the central bank are preliminary when first disclosed. Preliminary data are duly identified and are subject to revision. The data become final after the approval of the board, four weeks after the end of the reference month. An extensive range of time-series data is available in the *Economic and Financial Information* section on the BCB's website. Information on outlook indicators and time series for balance of payments, money supply, and the financial system in this section has been improved in the past year.

The central bank balance sheet

The central bank publicly discloses its balance sheet on its website. Periodicity and comprehensiveness have increased in the past year, and balance sheet information is now available on a monthly basis, including audited revenues and expenditures, income statements, cash flows, and explanatory notes.²⁸ Moreover, the central bank prepares a *Bi-Annual Balance Sheet Report* -- released in June and December each year -- which is submitted to Congress. The balance sheets detail credits to financial institutions, securities and open market transactions, National Treasury transactions and external liabilities. Information on National Treasury revenues and expenditures, public sector borrowing requirements, and the central bank portfolio is also publicly available. The balance sheets include the accounts of the BCB (arranged to facilitate economic interpretation), together with a consolidated statement of the foreign assets and liabilities of the public sector. The following assets data are published: foreign assets; credit to the federal government; credit to state and municipal governments; credit to the private sector; credit to deposit money banks; credit to other banking institutions; and credit to non-bank financial institutions. The BCB does not extend credit to non-financial public enterprises.

An assessment of the Brazilian economy, its public finances and the main economic policy measures is usually included in the *Annual Report*. The methodology used to compile the data is well documented. The BCB reports daily on the amount and composition of international reserves. The central bank's contingent liabilities, including restitution claims and other risks inherited from financial institutions under liquidation, have been incorporated into its balance sheet, under the explanatory notes section.

During the past year, the BCB has adopted the International Accounting Standards issued by the International Accounting Standards Board (IASB). The first balance sheet under the new accounting rules was released in June. In December this year, the first comparative balance sheet will be available in the second *Bi-Annual Balance Sheet Report*. In order to deal with situations outside the scope of the IASB, the BCB intends to observe the best accounting practices of other central banks.²⁹

Lender of last resort

Whenever the central bank acts as a lender of last resort, it must conform to established rules and reporting in its balance sheet. BCB loans to assist financial institutions facing temporary liquidity problems are granted for one day, through standardised repurchase agreement transactions.

In November 1995, with the creation of the Programme of Incentives for the Restructuring and Strengthening of the National Financial System (PROER), the financial system incorporated a liquidity assistance mechanism. However, the Fiscal Responsibility Law precludes its application under the original conditions. Despite this, the BCB guarantees the confidentiality of data relating to specific financial institutions or individuals, in accordance with the established banking oversight standards set forth in the IMF SDDS.³⁰ Some aggregate information about the costs of restructuring was included in a 2003 Working Paper.³¹

Public information services

The BCB's high-quality website is part of its comprehensive and reliable communications strategy, and serves as an important source of information on recent economic developments, monetary and survey data, the minutes of COPOM meetings, and the relevant contact details of officials. The central bank regularly conducts surveys in order to assess the usefulness of its publications. Information publicly available online also includes press releases concerning domestic federal public debt and open market operations, methodological notes on monetary policy, outlooks for the Brazilian economy and financial system credit operations. The features designed to support navigation in the BCB's website are user-focused, offering information and easy access to exchange and interest rates data. Investor Relations contents are on the homepage, showing the latest reports. A catalogue for online publications and release dates is also publicly available.

A quarterly *Inflation Report*, publicly available online, is considered both reliable and comprehensive.³² Other BCB publications include the *Quarterly Monetary Programme*, its *Open Market Report* (with timely information on the central bank's primary and secondary market operations), and the *Annual Report*. In addition, information on monetary aggregates and financial system credit operations is regularly provided.³³ A variety of Working Papers and Technical Notes on specific topics of monetary significance are regularly posted on the BCB's website. Press releases provide information on monetary and fiscal policies and open market operations. In addition, presentations made by BCB officials are publicly available.

The BCB provides useful monthly below-the-line data on the consolidated operations of the various levels of government and the non-financial public sector. It publishes data on nominal interest payments for different levels of government and their primary balances. It also publishes statistics on the use of government resources, for all levels of government and the consolidated public sector, on a monthly basis.

The Investor Relations Department within the central bank is in charge of collecting information to be included in the *Market Expectations Report* (MER), which is based on the main short and medium-term macroeconomic forecasts prepared by independent analysts and consulting firms. Variables forecasted include inflation trends, GDP growth, exchange rate fluctuations, SELIC targets, industrial production, foreign direct investment, and trade balance. Commentators have praised the comprehensiveness, reliability and professionalism of the MER, which is released to the public on Monday each week.³⁴

The BCB has been developing a reliable Investor Relations Programme (IRP), which provides adequate and timely information to market participants, including statistics on the main macroeconomic variables. Reports released through the IRP also include economic developments, regulatory topics, and policy announcements.

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK

●●●● Compliance in progress

Accountability before a designated public authority

Under the Fiscal Responsibility Law, the BCB is required to present, in a joint meeting with the relevant commissions of Congress, an evaluation of compliance with the objectives and targets of monetary, credit, and foreign exchange policies, detailing the impact and the fiscal cost of its operations and the results shown in its financial statements. The presentation -- available through the BCB website after its submission to Congress -- must take place within 90 days of the end of each semester.³⁵

The BCB's *Bi-Annual Balance Sheet Report* is also submitted to Congress for debate, and the BCB governor appears before the Congress twice a year. During these sessions, the governor and other officials respond to questions from the legislators on a range of economic policy topics. Even though some progress has been made, commentators have suggested that the technical capacity of Congress should be strengthened in order to increase its supervisory role.³⁶

Financial statement

Audited financial statement

Financial statements, including audited revenues and expenditures are disclosed in the *Bi-Annual Balance Sheet Report*. These data are compared with results from the previous year and include information on operating revenues, expenditures, and transfers. Methodological notes accompany the released data.

External and internal audit

Financial statements produced by the BCB are audited by both the Internal Comptroller and the National Audit Court (TCU), which monitors overall public finances. Since 1999, the BCB has also used an external auditor, although current legislation does not require it. KPMG has been acting as the external independent auditor since 2001.

In late 2004, the TCU released a report recommending that the central bank increase transparency in its foreign exchange procedures, which have been revised in the past year. Additionally, the report also pointed out some shortcomings in the relationship between the BCB and other financial institutions. Following the TCU's recommendations, the BCB has strengthened the role of the International Operations Department (DEPIN), including through the recruitment of better-trained staff and improvements in the public availability of information on its operations.

Conduct of officials

As there is no specific charter for the BCB, ethical standards for public servants have to be found in various pieces of legislation regulating the conduct of public employees. The 1994 Code of Professional Ethics for Federal Public Servants is publicly available and establishes professional behavioural standards for all civil servants. In addition, the 1990 Statute for Civil Servants, applicable to all public employees, sets out individual rights and responsibilities and establishes disciplinary procedures. Sanctions and penalties for officials are further detailed in the Fiscal Crimes

Law of 2000. This law applies to officials from all branches of government and, among other measures, details penalties for individuals who engage in credit operations without due legislative authorisation, who extend loan guarantees without adequate collateral, or who increase personal expenditures in the last 180 days of their period in office.

Also, the government has a Code of Conduct for senior federal government officials (CCAAF), which is applicable to about 700 government officials who manage public debt. The Code clarifies ethical rules for this category of officials, establishes rules regarding conflicts of interest, and places limitations on professional activities undertaken after leaving office. A Public Ethics Commission (CEP) was set up to implement the CCAAF, but it has limited real power. Upon entry into service, all public officials must supply a declaration of assets as required by the CCAAF. The General Corrector's Office (CGU) conducts investigations into public officials' infractions against federal funds or assets.

During the past year, an Ethics Committee has been established within the central bank, with the task of preparing specific rules of conduct for its officials, including the institutionalisation of senior officials' relationships with the media and market participants. Additionally, an Ombudsman Office (*Ouvidoria*) has been created recently at the central bank. The main tasks of this office are to protect citizens from potential BCB's abuses and improve its operations with the input of the general public. General information on the country's financial system is also provided through this office.³⁷

In 2004, accusations of tax evasion were brought against high-ranking members of the BCB, including its president Henrique de Campos Meirelles. These led to the resignation of the director of monetary policy, Luiz Augusto de Oliveira Candiota. Lula granted BCB President Meirelles -- through presidential decree -- cabinet status, a move widely seen as a means of increasing his immunity from prosecution in the event that new evidence could be presented.³⁸ In December 2004, the Senate voted to ratify this decision, and lawsuits against a BCB president may now only be brought before the Supreme Court. Other BCB officials remain without any special form of legal protection.

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Brazil between 6 and 8 November 2006:

Banco Central do Brasil

6 November 2006

Renato Jansson Rosek	Executive Manager	Investor Relations Department
César Viana Antunes de Oliveira	Advisor	Investor Relations Department
Luciana Valle Rosa Roppa	Analyst	Investor Relations Department

Ministry of Planning, Budget and Management

6 November 2006

Geraldo Julião Júnior	Manager	Secretariat of Federal Budget (SOF)
Martin Fortis	Advisor	Secretariat of Federal Budget (SOF)

7 November 2006

Antonio Henrique Silveira	Deputy-Chief	Economic Department
Thiago Neto	Analyst	Secretariat of Planning (SPI)
Raquel Porto Mendes Fonseca	Analyst	Secretariat of Planning (SPI)

National Treasury, Ministry of Finance

8 November 2006

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Fabiana Almeida Rodopoulos	Deputy-Head of Department	Fiscal Studies Department
Otavio Ladeira de Medeiros	Head of Department	Public Debt Management Unit
Jeferson Luis Bittencourt	Manager-Investor Relations Group	Public Debt Management Unit

ADDITIONAL INTERVIEWS

6 November 2006

César Mattos	Legislative Consultant	Brazilian Congress
Vander Gontijo	Legislative Budget Consultant	Brazilian Congress
Aécio S. Cunha	Legislative Consultant	Brazilian Congress

8 November 2006

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José Oswaldo Cândido Júnior	Senior Economist	Institute for Applied Economic Research
Paulo Du Pin Calmon	Professor	University of Brasilia

NOTES

- ¹ Banco Central do Brasil, Background & Macro Processes, available at: www.bcb.gov.br
- ² 2004-2007 Multi-Year Plan, available at: www.planobrasil.gov.br
- ³ 'Brazil: Report on Observance of Standards and Codes (ROSC) – Fiscal Transparency Module', International Monetary Fund, December 2001, and interviews in Brazil, 6-8 November 2006.
- ⁴ 'IMF Executive Board Concludes 2006 Article IV Consultation with Brazil', IMF Public Information Notice 06/69, June 2006, available at: www.imf.org
- ⁵ Interviews in Brazil, 6-8 November 2006.
- ⁶ Fiscal Responsibility Law (Supplementary Law 101 of May 4, 2000), Article 34.
- ⁷ Articles 2-3 of the Provisional Measure 2179-36 of August 24, 2001.
- ⁸ *Domestic Federal Public Debt and Open Market Operations Monthly Press Release*, available at: www.tesouro.fazenda.gov.br/hp/relatorios_divida_publica.asp
- ⁹ 'Brazil – Report on the Observance of Standards and Codes – FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism', IMF Country Report No. 05/207, June 2005.
- ¹⁰ These regional courts are located in the main cities of Brazil: Porto Alegre, Florianópolis, Curitiba, Rio de Janeiro, Belo Horizonte, Fortaleza, Brasília, Recife, Vitória, Goiânia, Salvador, Belém, São Luís, São Paulo, Ribeirão Preto, Campinas, Campo Grande and Foz do Iguaçu.
- ¹¹ Fiscal Responsibility Law (Supplementary Law 101 of May 4, 2000), Article 4.
- ¹² 'IMF Executive Board Concludes 2006 Article IV Consultation with Brazil', IMF Public Information Notice 06/69, June 2006, available at: www.imf.org
- ¹³ 'Inflation Targeting in Brazil', Henrique Meirelles, October 2004, available at: www.bcb.gov.br
- ¹⁴ The central bank is not committed to any specific target in this process beyond the general objective of increasing the country's international reserves in the medium term.
- ¹⁵ Interviews in Brazil, 6-8 November 2006.
- ¹⁶ Full explanation of BCB Resolution 3265, available at: www.bcb.gov.br/rex/CNC/Ftp/quadro%201.pdf
Further BCB Resolutions on Exchange Markets can be found at www.bcb.gov.br/?PCAMATUALIZA
- ¹⁷ See www.bcb.gov.br/?BUSCANORMA;
www.tesouro.fazenda.gov.br/legislacao/download/divida/ato_norm_demab_codip.pdf, and
www.tesouro.fazenda.gov.br/legislacao/download/divida/ato_normativo02.pdf.
- ¹⁸ The head of the Investor Relations Office also participates in the COPOM meetings, presenting a summary of the latest expectations of market participants on inflation and other macroeconomic variables.
- ¹⁹ See www.bcb.gov.br/?SISMETAS
- ²⁰ Banco Central do Brasil, *Financial Stability Reports*, available at: www.bcb.gov.br/?RED-FINANCSTAB
- ²¹ Article 32 of the Fiscal Responsibility Law and Senate Resolution 43 entrusts the Ministry of Finance with monitoring state and municipal debt. The National Monetary Council indirectly controls the public sector's indebtedness by limiting credit provided by financial institutions to the public sector.
- ²² See Decisão Conjunta 10 (May 2, 2002), at: www.bcb.gov.br, Instrução CVM 405 (February 27, 2004), and Instrução CVM 409 (August 18, 2004), at: www.cvm.gov.br
- ²³ The current payment system allows the BCB to monitor the performance of financial institutions more closely. The Brazilian payment system reform represents a second phase of the financial system reform. On the whole, the objective is to reduce the possibility that a crisis in the financial system -- and consequently in the real economy -- may occur.
- ²⁴ BCB Supervision Manual, available at: www3.bcb.gov.br/msv/pesquisa/validate.jsp
- ²⁵ Administrative Punitive Procedures at: www4.bcb.gov.br/?PAD
- ²⁶ Schedule for Basel II implementation is outlined in BCB *Communiqué* 12.746 of December 9, 2004.
- ²⁷ IMF Special Dissemination Standard (SDDS) – Brazil, at: <http://dsbb.imf.org/Applications/web/sddscountrycategorylist/?strcode=BRA>
- ²⁸ BCB's Balance Sheets, available at: www.bcb.gov.br/?BALANCE
- ²⁹ Conversion of accounting statements to the IASB international standard took place in three phases. In the first one, the BCB and the consulting firm Ernst & Young assessed BCB's operations to conform them to the IASB accounting rules. The second phase involved adapting and reformulating the chart of accounts, the accounting procedures and the managerial systems that interact with the accounting system. The third and last phase is the disclosure of accounting statements according to IASB rules.
- ³⁰ Complementary Law 105, January 2001.

³¹ Ilan Goldfajn, Katherine Hennings, and Helio Mori, "Brazil's Financial System: Resilience to Shocks, No Currency Substitution, but Struggling to Promote Growth," Working Paper No. 75, Banco Central do Brasil, June 2003.

³² An independent report produced jointly by the International Centre for Monetary and Banking Studies, and the Centre for Economic Policy Research in 2003 determined the essential elements that a good inflation report should have: central bank's level of expertise; the completeness of the report; the clarity of the writing style; the quality and fullness of the information provided; and whether or not the report is intimidating to economists or non-economists. The study -- available at www.cepr.org/press/P161.htm -- ranked each country's Inflation Report and released a top ten list, where Brazil was ranked in third position, after the United Kingdom and New Zealand.

³³ Available at: www.bcb.gov.br/?ECOIMPOM

³⁴ *Market Expectations Report*, available at: www4.bcb.gov.br/?INVESTOR

³⁵ Fiscal Responsibility Law (Supplementary Law 101 of May 4, 2000), Article 9, Paragraph 5.

³⁶ Interviews in Brazil, 6-8 November 2006.

³⁷ Ombudsman Office, available at: www.bcb.gov.br/?OUVIDORIA

³⁸ Provisional Measure 207, 13 August 2004.