

CONFORMED COPY

LOAN NUMBER 7046 - BR

Loan Agreement

(Programmatic Fiscal Reform Structural Adjustment Loan)

between

FEDERATIVE REPUBLIC OF BRAZIL

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 5, 2001

LOAN NUMBER 7046 - BR

LOAN AGREEMENT

AGREEMENT, dated June 5, 2001, between the FEDERATIVE REPUBLIC OF BRAZIL (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter, dated December 20, 2000, from the Borrower: (i) describing its macroeconomic framework and a program of actions, objectives and policies for fiscal reform, covering fiscal sustainability, public expenditure management, and management of public liabilities (the Program), which Program consists of actions that have already been taken as described in Schedule 3 to this Agreement (the First Phase of the Program), and actions and policies that the Borrower intends to take and adopt in the near future; (ii) declaring the Borrower's commitment to the objectives of the Program; and (iii) requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the First Phase of the Program to provide such assistance to the Borrower by making the loan provided for in Article II of this Agreement (the Loan) as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 41, is modified to read:

"'Project' means the first phase of the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.";

(c) the last sentence of Section 5.03 is deleted;

(d) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the first phase of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(e) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Central Bank" means Banco Central do Brasil, the Borrower's central bank;

(b) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement;

(c) "PPA" means the plan referred to in paragraph 3 of Schedule 3 to this Agreement; and

(d) "STN" means Secretaria do Tesouro Nacional, the Secretariat of Treasury within the Borrower's Ministry of Finance.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to seven hundred fifty-seven million five hundred eighty thousand Dollars (\$757,580,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the amount of seven hundred fifty million four thousand and two hundred Dollars (\$750,004,200) from the Loan Account in

support of the First Phase of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in the Central Bank a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals of the amount referred to in paragraph (a) above shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

Section 2.03. The Closing Date shall be March 31, 2002 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one per cent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period, at the Variable Rate; provided that, upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on March 1 and September 1 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Particular Covenants

Section 3.01. The Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the First Phase of the Program, or any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four (4) months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Effective Date; Termination

Section 4.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the macroeconomic policy framework of the Borrower is consistent with the objectives of the Program.

Section 4.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that this Agreement has been validly registered with the Central Bank.

Section 4.03. The date August 6, 2001 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE V

Representative of the Borrower; Addresses

Section 5.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministério da Fazenda
Procuradoria Geral da Fazenda Nacional
Esplanada dos Ministérios, Bloco "P" - 8º andar
70048-900 Brasília, D.F.
Brazil

Facsimile: (011-55-61) 412-1740

With copy to:

Ministério do Planejamento, Orçamento e Gestão
Secretaria de Assuntos Internacionais

Esplanada dos Ministérios, Bloco "K" - 5 andar
70040-906 Brasília, D.F.
Brazil

Facsimile: (011-55-61) 225-4022

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the city of Brasília, Brazil, as of the day and year first above written.

FEDERATIVE REPUBLIC OF BRAZIL

By /s/ Pedro Sampaio Malan

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gobind T. Nankani

Acting Regional Vice President
Latin American and the Caribbean

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
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112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories, or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Payment Date	Installment Share (Expressed in a %)
September 1, 2006	3.96%
March 1, 2007	3.96%

September 1, 2007		3.96%
March 1, 2008	3.96%	
September 1, 2008		3.96%
March 1, 2009	6.60%	
September 1, 2009		6.60%
March 1, 2010	6.60%	
September 1, 2010		6.60%
March 1, 2011	6.60%	
September 1, 2011		6.60%
March 1, 2012	13.20%	
September 1, 2012		13.20%
March 1, 2013	14.20%	

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3

First Phase of the Program

1. Entry into force of Complementary Law (Lei Complementar) No. 101, of May 4, 2000, which establishes public finance norms regarding fiscal management responsibility (at the federal, state and municipal levels), including, inter alia: (a) fiscal targets; (b) mechanisms to correct deviations from fiscal targets; (c) mechanisms to encourage the preparation of accurate revenue projections; (d) limits on personnel expenditures, net debt, and borrowings of the federal, state and municipal

governments, as well as on gross bonded debt of the federal government; (e) prohibition of intergovernmental lending; (f) transparency of fiscal planning and execution, through dissemination of fiscal laws, accounts and reports; (g) consolidation of overall public accounts by the federal government; and (h) registry of public sector debt by the federal government.

2. Entry into force of Law No. 10028, of October 19, 2000, which defines crimes against the public finances.

3. Entry into force of Law No. 9989, of July 21, 2000, which approved the Borrower's expenditure plan for the years 2000 through 2003 (the PPA), including, inter alia, measurable physical targets, and actions to achieve such targets, in respect of the programs under the PPA.

4. A management system for the PPA has been established enabling the managers of PPA programs to report on their targets and other implementation related matters to the Borrower's Ministry of Planning, Budget and Management.

5. The Borrower's Ministry of Planning, Budget and Management has started the assessment of the reports referred to in paragraph 4 above for purpose of preparing the next draft law on budgetary guidelines (Lei de Diretrizes Orçamentárias).

6. Definition of the scope and structure of the new integrated financial administration system, to be managed by STN and used by all public entities, has been completed and the cost for its development in 2001 has been included in the budget proposal for 2001 sent by the Borrower's executive branch to the Borrower's congress, comprising the following modules: (a) financial management; (b) budget management; (c) monitoring of financial conditions of states and municipalities; (d) public debt management; and (e) STN's operations.

7. Development of the modules referred to in paragraph 6 above has started.

8. The Borrower's Executive Branch has submitted to the Borrower's Congress proposal 248/98 for a complementary law (Projeto de Lei Complementar) which will govern the dismissal of tenured public servants in cases of lack of performance.

9. A decision has been taken to transfer from the Central Bank to STN the responsibility for the carrying out of the Borrower's debt management operations.

10. Entry into force of the Borrower's Decreto No. 3502, of June 12, 2000, which provides, inter alia, that COFIEIX (the Borrower's commission responsible for foreign currency borrowings for public sector projects) shall observe global annual limits for foreign borrowings for public sector projects to be carried out at the federal level, or to be guaranteed by the Borrower.

11. The following actions have been taken by STN: (a) establishment of an office to provide strategic public debt analysis; (b) establishment of an office for settlement of internal and external public debt; (c) establishment of a unit responsible for assessing and quantifying public sector contingent liabilities; and (d) introduction of a risk management framework for public sector debt, with a preliminary debt risk analysis completed and initial balance sheet produced.

12. The following actions have been taken to improve the operations of issuance and negotiation of the Borrower's debt instruments (primary and secondary market operations): (a) pre-announcement of auctions of such instruments; (b) beginning of standardization of such instruments; (c) phasing-out of the Central Bank's role as the Borrower's financial agent for purposes of issuance of the Borrower's debt instruments; and (d) beginning of the promotion of an electronic trading system.

13. The following programs have been established under the PPA to improve the delivery of public services in Brazil: (a) a public service quality program; (b) a program to reduce bureaucracy; and (c) a results oriented public management program.

