Brazil

SEB MERCHANT BANKING – COUNTRY RISK ANALYSIS **November 28, 2018**

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Last year's fledgling recovery has failed to strengthen, leaving performance at a paltry 1% economic expansion in 2018 as strikes and lack of reforms have depressed sentiment among investors and households. With the election of Mr. Bolsonaro as President last October hopes are growing for a new impetus. He has been portrayed as a right-wing populist, but as a previous outsider he may at least be less tainted by establishment corruption. That could help him cut through deep vested interest and other opposition to reforms and fiscal stabilization.

Summary and conclusion[1]:

Growth remains moderate: The modest recovery that started in 2017 following Brazil's worst economic crises in modern times has so far in the current year failed to pick up momentum. In last fall, a widespread strike among truckers hit the economy hard and left the impression of government inability to contain unrealistic demands. Following a tumultuous election campaign that almost saw former Pr. Lula out of jail, sentiment picked up again as Mr. Bolsonaro, a longstanding but little known right-wing politician, rose in the polls and eventually made a landslide election last October..

Government finances in the doldrums: While some reforms have seen daylight since the 2015-crisis, the most urgent one – correction of the fiscal deficit -- has not yet past Congress. The deficit has peaked but remains elevated at more than 7%/GDP. At that rate government debt could approach 100% of GDP early next decade and breach the Parliament's self-imposed limit on budgetary spending thus leaving no room for discretionary spending or public investments. More than 80% of budget spending is constitutionally mandatory. The most urgently needed of these is reform of the country's pension system, in particular the very generous parts of it for public employees.

Strong central bank: Monetary policy, by contrast, is conducted in an efficient and market friendly fashion. Inflation and inflation expectations seem well anchored around a steady rate of 4% in line with policy targets. That has also helped stabilize the exchange rate of the Brazilian real although not enough to prevent relatively large gyrations and a depreciation of 18% against the dollar so far this year.

Reforms and the political climate: Except for labor market reforms, it has not been possible to muster consensus about other much needed reforms, including of an extremely convoluted corporate tax system and a financial sector dominated by heavily subsidized loan rates for prioritized social and agro-industrial policies. Most of these are wasteful and detriment to productivity growth but supported by vested interests. Hopes are now that the newly elected president, Mr. Bolsonaro, believed not to be tainted by the corruption climate dominating much of the political elite, will cut through the cob-web of inconsistent policies and often unsavory interests. Observers grant him months – not years -- of honey moon with financial markets before they force up interest rates and make the budget situation even less sustainable
.

Two rating agencies recently downgraded the sovereign to BB-. That could prove prematurely at least as regards country risk.

[1] Based on publicly available data and information obtained in meetings with multilaterals, banks and representatives of the media in Sao Paulo and Brasilia during a visit in in Nov. 2018.
Shortcomings or mistakes are the responsibility of the author.

Recent economic developments

The modest recovery that started in 2017 following Brazil's worst economic crises in modern times, has so far in the current year failed to pick up momentum. The labour market has nevertheless showed some improvement with a small drop of unemployment helped by recent labor reforms. Moderate inflation and overall external sector balance should now free the new government to focus on structural and fiscal challenges.

Moderate growth continues: the current year started with a reasonable economic performance although it was clear that much of the momentum from the second half of 2017 had been lost. Hopes for revival in the second quarter were dashed as a strike erupted among the nation's truckers reacting to higher diesel prices. To some extent they followed the global oil price but were amplified by administrative hikes. Eventually the truckers won the stand-off, but not before the economy had taken a hard hit and the government at the end had yielded to demands that seemed to scupper its effort to instill budget discipline.

At the same time the political posturing heated up with polls showing an unstable situation among voters and even the possibility that former president, Mr. Lula da Silva, could be released from prison where he was serving a 10-year sentence for corruption to once again run for office. Polls indicated clearly that in that case he might have a good chance of winning. This prospect scarred many investors and middle class consumers and resulted in a bout of new exchange rate volatility and depressed sentiment.

The third quarter followed suit with growth trailing below 1% in annualized terms -- year-on-year (yoy) -- as political turmoil continued. Hopes have now shifted focus to the fourth quarter as a supposedly market friendly although relatively unknown politician won the elections with a wide margin. His greatest credit is being untainted by the massive corruption scandals still roiling Brazil's elite politics since they erupted three years ago. It is, however, less clear what he will do with his new powers but so far he has chosen a team of market friendly experts to staff his cabinet as he takes office on January 1, 2019.
New calm and optimism should therefore bode well for fourth quarter growth resulting at least in 1% growth for the full year much underpinned by revived oil investments.

Labor market improvements: The labor market reforms that took effect a year ago have reduced litigation and increased flexibility in employment contracts and wage setting. As a result of that and the second year of moderate growth, unemployment has begun to drop from a post-crisis peak of 12,7% in 2017 to an estimated 12,3% in the current year. Much of that improvement, however, has so far taken place in Brazil's large informal sector which dominates about a half of the total labor market. That is despite the reduced costs of hiring for formal sector companies. Another reason for the drop in unemployment would be the rise of discouraged workers rising from 1.5mn persons pre-crisis to 5mn persons in recent years.

Stable inflation outlook: October inflation as measured by Brazil's main consumer price index, the IPCA, recently ticked in at 0,45% month-on-month (mom) slightly below expectations bringing 12-month inflation to 4,1%. That is somewhat up from the full year result of 2017 at 3,5%, but well in line with the central bank's inflation target. Continued slack in the economy mitigates risk of a new bout of inflation, barring any significant weakening of the exchange rate, higher food or energy prices.

Shrinking external imbalances: The current account balance for the current year is likely to end in a slightly higher deficit of some 0,8%/GDP, up 0,3 percentage points (pp) from the previous year. That is still a significant improvement compared with the pre-crisis period but is much due to low domestic investment demand. As such, the deficit could remain low into the early next decade, depending on global demand not least from China. Over recent years, China has become Brazil's main export market receiving 20% of its total merchandise exports. It is also one of Brazil's most important sources of foreign direct investments (FDI) accounting for 10% of such capital inflows. Such inflows were hardly affected by the crisis three years ago and have remained high at around $65bn a year, about 3,5%/GDP.

High reserves and roll-over rates: At slightly less than 35%/GDP net foreign liabilities are moderate and more than half of them are covered by ample foreign reserves in the hands of the central bank. These have been stable at around $370bn for several years – enough to cover two years' of merchandise imports or seven times worth of outstanding short term debt. Private sector debt roll-over rates remain close to 100%, suggesting continued robust access of the private sector to external capital and loan markets.

Policies

With monetary policies in the trusted hands of the Brazilian central bank, the government's first and foremost task is to fix the budget. However, that has been a thorny issue for more than two decades and is tightly linked with social and structural policies. Those include pension rights enshrined in the Constitution and an exceedingly convoluted tax code which is further complicated by Brazil's federal government system.

The deficit stays put: The estimated government deficit for the current year is estimated at 8%/GDP, slightly up from 2017 despite lower interest rates on the government's debt, but the slight deterioration is mainly due to weaker growth than first projected. Such a shortfall is still down from a peak of more than 10%/GDP in 2015 during the height of the crisis. The primary deficit, by contrast, i.e. the headline deficit stripped of net government net interest payments, is also likely to end somewhat higher than last year at 2,2%/GDP, with the implication that government debt will continue to grow relative to GDP.

Fast growing pensions: The composition of the budget's spending side is gradually changing as mandatory spending is eating into budget revenues. Various calculations show such spending between 80-90% of total government revenues. Taking a minimalist approach, mandatory spending consists of pensions – 43% of the total – the public sector payroll – 22% of the total and various other items – 15% of the total budget. Among these government pension contributions have risen on average twice as fast as other main outlay categories on the budget over the last three decades. Today they account for almost 10% of GDP.

Financing no problem: Helped by well-managed monetary and foreign currency policies the financing of the fiscal deficit has so far not caused major headaches for the government. Interest rates have come down and domestic capital markets have remained liquid and deep and eager to invest in treasuries. That is despite the upward trend in the government debt to GDP ratio which is set to reach 100%/GDP by the middle of next decade according to projections of independent observers without fiscal reforms on the spending side. Last year the debt ratio ended just below 73% and this year it is likely to add another 4pp or more on top of that. The majority of that debt is issued in local currency and most of the debt is in the hands of banks and other domestic institutional investors.

Government assets: There are some factors mitigating to the debt scenario presented above. The government has also significant financial assets including those held by the central bank for monetary policy purposes and lending to its main policy bank, BNDES, and its two majority owned commercial banks. Last year, BNDES started to repay its debt to the government and is expected to repay another BRL130bn – about 2%/GDP -- before the end of the current year thus reducing the government's debt and its current financing needs. But that can be repeated only a few more years and is not a long term solution.

Monetary and exchange rate policies remain steadfast: Monetary policy, by contrast, is conducted in an efficient and market friendly fashion. Inflation and inflation expectations now seem well anchored around a steady rate of 4% somewhat below the policy target at 4,5% in terms of IPCA, one of the many price indexes published in Brazil. That combined with tepid credit growth allowed the central bank – Banco Central do Brazil (BCB) – to further reduce banks' reserve requirements and its main policy rate, the SELIC, by another 50 basis points (bsp) at the beginning of this year to 6,5% pa after having cut it by 675bsp in 2017.

Despite large gyrations, BCB lets the exchange rate be market determined: The foreign exchange market took those easing actions in strides as reflected in an overall strengthening of the real through 2017. That was until political turmoil and the election campaign prompted a sharp weakening of almost 20% against the dollar in the second and third quarter of the current year. This, the BCB apparently and with the benefit of hindsight rightly so, mainly chose to ignore in terms of outright interventions perhaps because the latter might easily have become costly in terms of reserve losses. Instead it opted for interventions in the derivative markets which does not necessarily require reserves but can be settled in local currency. As a result these hedging instruments boomed again to $69bn. (end Sept. 2018), still only half the level of its previous peak a few years ago. On another issue, one can speculate if Brazil's tax on short term external loans in the form of a capital flow management measure (CFM) has achieved much in counteracting the large exchange rate gyrations seen in recent years -- its supposed rationale.

Financial sector

Banks are well capitalized and liquid: IMF's latest report under its Financial Sector Assessment Program (FSAP) found banks to be well capitalized, profitable and liquid in large part thanks to high interest margins and fees.[2] Moreover, despite considerable credit losses on their loan portfolio, they remain resilient. The FSAP found only four banks – among them both public and private – failing a solvency stress test, a small number against Brazil's fragmented and large financial system with total credit extension at more than 110%/GDP.

High interest margins: However, their interest margins remain extraordinarily high among peers. In the first half of the current year they were able to keep lending rates at 40%pa, some 33pp above deposit rates, which raises question marks about financial sector competition and efficiency. While loan loss provisions and write downs represent a large part of this huge gap, the FSAP also found that decomposing the margin shows operating costs as the main factor. Actually, since soaring during the crisis, delinquency costs have come down more than 1.5pp to 6% of the loan book. That includes banks' corporate lending, long considered their main contingent vulnerability. That could likely be reduced further with better collateral enforcement and a more efficient judicial system not least for mortgages and other household lending. Another factor behind the noted interest margin is the thwarted competition between the three state banks and the large number of private banks – many of them quite small -- which often results in adverse client selection for the private banks.

Structural reforms

For several years on these pages we have discussed the need for various reforms of the Brazilian economy, fiscal balances and the government. Except for some labour reforms at the end of 2017, little has been accomplished. There is now a growing acceptance that the present situation is ultimately unsustainable and that eventually something will have to give to avoid a very hard landing. The most important of these is fiscal reform combined with pension reform to prevent a fiscal crisis, and tax reform combined with financial sector reform to improve productivity and growth.

Fiscal reforms:

Spending ceiling: A spending ceiling was adopted in 2016 to freeze real primary federal spending until 2026. Assuming positive GDP growth should restore primary surpluses by 2022[3]. Moreover, the spending ceiling also mandates annual government expenditure cuts of 0,5%/GDP starting in 2019 which would see the debt level peak in 2023 at 90%/GDP. If fully implemented one should see the "light in the tunnel" and the fiscal imbalances should gradually be overcome. The problem is that the *spending freeze*, is inconsistent with other laws which regulates the government budget, including the Constitution. That in

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[2] Unpublished but extracts included in IMF art IV Country Report on Brazil, Jul 2018

[3] World Bank "Towards a fair adjustment" Policy Notes 2018

particular regards public sector pensions (Conf. below) and could squeeze out other spending including for health care and education.

<u>High public sector salaries</u>**:** At 13%of GDP, compensation of employees is substantially above the levels observed in other emerging market economies or even in advanced economies. That is not because of high staffing (public employees number some 9% of the workforce), but because of a wage premium of at least 50% over private sector and in many cases even 90%. That has for many years attracted highly qualified individuals who have to pass challenging entry tests for public sector employment but then provided few incentives to do anything not prescribed in their respective job descriptions lest job security is threatened which otherwise is almost iron clad. Sitting in their jobs to retirement also qualifies for extraordinary generous pension schemes. Reducing the government wage bill to the average of peers as a share of GDP has according to calculations the potential to save the budget 4%/GDP of annual primary spending.

<u>Pension reform</u>: Brazil's present pension system collects contributions from 67mn. private sector employees and from 6mn. civil servants at the federal, state and municipal levels. The most expensive part of it is the latter. It is based on the pension reform of 2003 and its main characteristics are 100% replacement ratio from last salary and also pension growth linked to wage growth of successors in the same job category. The private sector pension system includes only formal workers, but because they receive benefits larger than their cumulative contributions there is in some sense a transfer over the budget from informal to formal workers, the latter representing in most cases the richer part of the population.

As regards budget consolidation, the pressing problem is the growth of government pension payments mainly due to demographic changes with rapid escalation expected toward the end of the next decade caused by growing numbers of retirees. The incumbent, Pr.Temer, who did not run for office at the latest elections, last year presented a pension reform that would have settled much of the problem for now, although not for the longer term. However, this proposal and attempts to introduce a minimum retirement age did not succeed. The World Bank estimates that 10 states are threatened with insolvency under the present unreformed pension regime by 2021 even under a baseline of economic recovery. That would rise to 17 states in case of a renewed recession over the next couple of years.

Improving productivity

<u>The corporate tax code</u>: Brazil's corporate tax code is exceedingly complicated and gives rise to much tax arbitrage. The ICMS tax, a kind of sales tax, is levied at the state level but with different rates for different sectors providing opportunity for tax "fixing". It is paid on the source of trade -- <u>not</u> destination -- making it possible for states to compete among each other to attract business by offering tax cuts. The impoverished North has in particular taken advantage of this with the result that many industries are overrepresented in parts of the country in a way that is clearly suboptimal from a logistical point of view. It is an important revenue source, representing as much as 80% of all state revenues in many cases. -- A proper value added tax (VAT) has been debated for years. It would mean the same rate for all sectors and all states and be paid on the site of destination thereby blocking "tax wars". But neither this nor other tax reforms are unlikely to happen soon. The present ICMS is determined in the Constitution and requires a qualified majority in Congress for any amendments.

<u>Financial sector reform</u>: Brazil's financial sector is large with outstanding credits at more than 110%/GDP. It is also highly fragmented on the private side but strongly consolidated on the state-owned side with one policy bank, *BNDES*, and two government majority owned commercial banks, *Banco do Brazil* and *Caixa Economica*. They dominate about half of all credit extension with subsidized loans earmarked for priority areas, including agriculture and housebuilding. This configuration provides a highly unequal playing field, thwarting competitiveness and wasting resources through bad capital allocation. It has also implied that the state owned banks have been able to attract the most creditworthy clients leaving private banks with an adverse selection and therefore higher delinquency rates, forcing them to raise loan rates even further. In another vein, the IMF notes that ability to provide large loans at below market rates creates room for corruption,

an endemic problem in Brazil which we have dealt with on these pages in previous reports.

The government has begun to rein in the expansion of its banks. Loans from BNDES are set to drop 14% by the end of the current year and its lending rates should gradually approach market rates early in the next decade. This, however, raises the issue of how prepared the private sector is to take over the business from the state banks. Except for treasuries, the long term domestic capital market is very shallow and long tenors -- up to 30 years -- are also regarded as too risky for most private banks.

Politics

The presidential elections last October were held in two rounds as none of the five main candidates mustered an absolute majority in the first. In the second round Mr. Bolsonaro , an outspoken right-wing candidate, won with 55,% of the votes against his opponent from the Labor party (PT). The composition of the new Congress, by contrast, gave the President only 100 supporters among the 515 seats in Congress, including 52 from his own party and about the same number of so called BBB (*Beef, Bullets and Bible!*) independents. That is ways too little for Constitutional amendments which require 308 sets, 60% of the votes from Congress in its Chamber of Deputies. In return, the opposition, PT plus other left-wing parties can muster some 220 seats – the exact number depending on how to group a host of smaller parties.

The President elect has been a member of Congress for a number of years but observers note he has an inconsistent voting record in individual cases. He has been back and forth with regard to working with the incumbent, Pr. Temer, on pension reforms or on the canceling of the contentious issue of price indexation for public sector salaries. He is himself a military and has reportedly uttered ugly statements that seemed to be harking back to Brazil's past experience with military dictatorship. However, so far, he has surrounded himself with both civilian and military experts of high standing with the Brazilian electorate. A litmus test of the new president may soon come as he has to decide on an extension of the diesel subsidy before year end – the issue that inflamed truckers in last June. Another litmus test could be how he deals with the long-standing issue of making the central bank formally independent in its monetary and exchange rate policy implementation. These issues may be politically contentious but can be decided by the government alone.

Eventually, the challenge for the new president will be how to win over other parties making up the middle ground and some few hundreds independents. As we explained last year, in the outgoing Congress these independents are regarded as people with less political or ideological motivation to run for office than hopes for lining their own pockets. Many of them will be aiming at well paid public sector jobs with generous pension plans. Markets should be excused if having fears that it may prove very hard to convince these Congress members to vote for cuts to government salaries or pension rights, reforms that requires Constitutional amendments. Nevertheless, so far markets have given the President elect a warm welcome.

Outlook

After the current year's underperformance, expectations are easing for 2019. Major uncertainties are done with, not least the political situation, where an erstwhile outsider with no experience of being in power has so far proven adept in choosing a market friendly team. However, Brazil has been through a deep financial and fiscal crisis which likely means a v-shaped recovery is unlikely. A rebound to 2% annual growth is probably as much as can reasonably be expected but with wide margins from only 0,5% to 3% growth. A rebound will likely be spearheaded by real investments, including in the oil industry, followed by strengthening consumer demand while net exports may continue exerting a drag together with cut backs to government expenditures. But without such cut-backs the other drivers may also fail to deliver a positive impact as confidence in the new administration would start to erode.

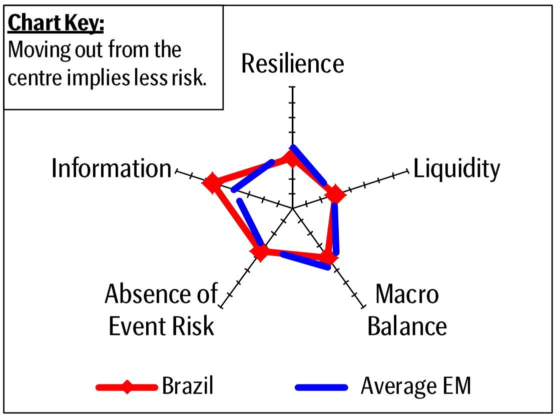
It is now of uttermost importance that the new president begins to show his mettle. His first and easy actions should be to once again put former Pr. Temer's pension reform on the table without diluting it much further with the objective to at least staving off a pending fiscal crisis into the next decade. Next, he could make the central bank formally independent as it is de facto already. Both may cost political capital, but it will clarify where Mr. Bolsonaro stands as a relative political novice. By doing so he would probably have bought himself enough market favor to avoid any blow up in the government's financing costs for at least a year.

The more fundamental reforms can then be prepared for the remainder of his term. The most important of these is probably introducing a VAT or otherwise thoroughly rationalizing the tax code to stop the ongoing tax wars among provinces that probably is more devastating to growth than most people realize.
Next, the government controlled financial sector should be starved off subsidized and earmarked loans that not only present a burden on the budget but also thwart competition in financial markets and among banks and add to the general misallocation of capital.

First after that time may be ripe to tackle the more intricate issues of pension entitlements not least for public sector employees. While clearly socially unfair it may also be an underlying source of corruption if not legally so, then at least implicitly. But this is a hard nut as it requires Constitutional amendments and as such the support of 60% of Congress

Brazil

Key ratios	2018
Population (mil.)	211
GDP/capita (US$)	9 078
GDP (change)	1,5%
Inflation	3,7%
Curr.Acc. Balance/GDP	-1,1%
Reserves/imports (months)	26
Budget balance (% of GDP)	-7,3%
Government gross debt (% of GDP)	76%



External ratings:
Fitch: BB-
Moody's: Ba2
S&P: BB-

Peers:
Vietnam
Russia
Hungary

Graph: Brazil is close to the emergig market average on resilience, liquidity and event risk, but worse on macro balance. In return Brazil is much better as regards information risk than the average emerging market.

where the new president commands only 20% of the seats. As explained above, that could prove very challenging taking into account that he will have to win over many Congress members who may have little or no personal motivation for passing policies that hurt their own ambitions for eventually landing coveted jobs in the government sector. .

Other risks are mainly of external origins, including a breakdown in China, Brazil's most important export market and source of long term capital, or that Fed in the US overplays its hand in being "ahead of the curve". However, being a rather closed economy, while not necessarily an advantage in itself, mitigates external risks. In the longer term Brazil, a country most favored by nature, should have a bright future as long as it can manage to live with itself.

Ratings

S&P's and Fitch's decided, in Q1 2018, to downgrade Brazil to BB-, from BB. In regard of the uncertain prospects for government finances, a decision easy to rationalize as regards the sovereign. As to country risk, however, the situation is not that precarious, and it may be reason to postpone that assessment pending how the country manages to climb out of its present growth malaise. But one more year of only 1-2 percent economic expansion could also trigger a downgrade of the country as such.

Key data:	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
GDP (US$ bil)	2 474	2 459	1 818	1 809	2 055	1 916	2 105	2 231	2 363
GDP/capita (US$)	12 208	12 028	8 820	8 703	9 810	9 078	9 901	10 424	10 967
GDP (change)	3,0%	0,5%	-3,6%	-3,5%	1,0%	1,1%	2,1%	2,5%	2,7%
Investments/GDP	22%	21%	19%	17%	17%	17%	17%	18%	18%
Budget balance/GDP	-3,0%	-6,0%	-10,2%	-9,0%	-7,8%	-7,3%	-6,7%	-6,1%	-5,4%
Govt debt/GDP (net)	51%	53%	62%	67%	72%	76%	77%	78%	79%
CPI inflation (%)	6,2%	6,3%	9,0%	8,7%	3,4%	3,7%	4,5%	4,2%	3,9%
Money demand (%)	10,4%	3,3%	-2,3%	0,4%	4,0%	6,0%	7,4%	7,3%	6,7%
Stock prices (average)	53 750	52 656	49 781	53 173					
Interest rates	8,2%	10,9%	13,4%	14,1%	10,1%	6,5%	7,3%	7,9%	7,9%
Exch. Rate ($)	2,16	2,35	3,33	3,48	3,19	3,61	3,52	3,56	3,59
Trade/GDP (%)	20%	18%	20%	18%	18%	21%	20%	20%	20%
Oil price (Brent)	$109	$99	$52	$44	$54	$75	$77	$73	$73
Millions US $									
Export of goods	241 577	224 098	190 092	184 453	217 242	227 000	235 400	244 949	258 190
Imports of goods	241 189	230 727	172 422	139 416	153 214	173 110	189 559	208 182	222 778
Other:	-75 227	-97 552	-77 104	-68 583	-73 790	-75 047	-78 298	-81 306	-83 161
Current account	**-74 839**	**-104 181**	**-59 434**	**-23 546**	**-9 762**	**-21 157**	**-32 457**	**-44 539**	**-47 749**
(% of GDP)	-3,0%	-4,2%	-3,3%	-1,3%	-0,5%	-1,1%	-1,5%	-2,0%	-2,0%
FDI	54 744	71 140	61 200	65 432	64 417	62 897	64 219	70 656	77 642
Loan repayments	-63 750	-44 957	-71 342	-94 709	-93 194	-87 367	-85 454	-86 086	-87 628
Net other capital flows	78 937	78 854	63 021	54 563	49 816	52 990	61 584	70 068	75 830
Balance of payments	**-4 908**	**856**	**-6 556**	**1 740**	**11 277**	**7 364**	**7 892**	**10 100**	**18 095**
Reserves	365 560	366 416	359 860	361 600	372 877	380 241	388 133	398 233	416 328
Total debt	322 021	339 797	344 446	332 660	316 194	323 795	342 393	363 238	383 027
o/w short term debt	35 109	47 375	56 995	61 870	53 222	56 171	58 998	62 650	66 188

Sources: Oxford Economics and SEB estimates

Rating history					
Fitch (eoy)	BBB	BBB	BB+	BB	BB
S&P (eoy)	BB+	BBB-	BB+	BB	BB
Moody's (eoy)	Baa2	Baa2	Baa3	Ba2	Ba2

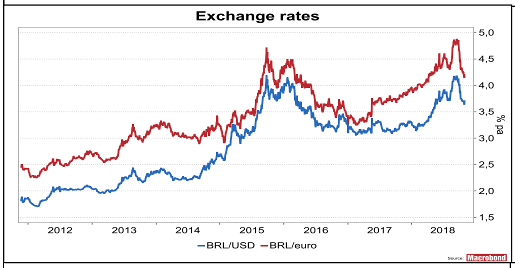
Type of government: Parliamentary Democracy

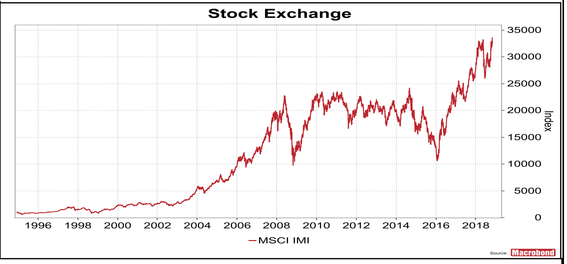
Next elections 2022

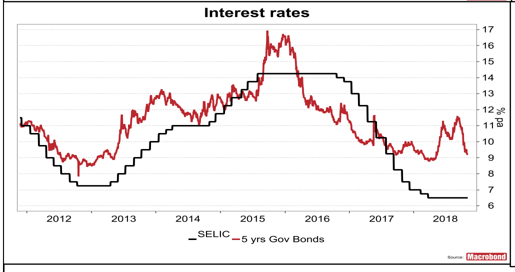
Other:

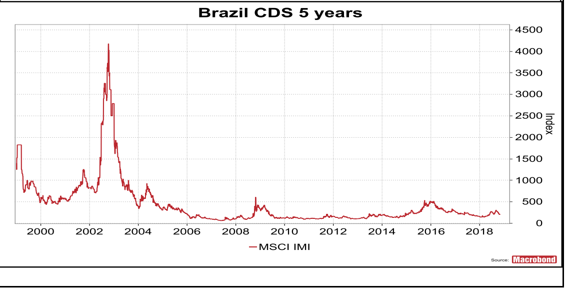
Latest PC deal 1992/active

Latest IMF arrangements 2002/SBA









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