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Economic Committee Papers - Brazil - Country Economic Brief - Qualitative Evaluation

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APR 11 1968

COUNTRY ECONOMIC BRIEF

BRAZIL

I. QUALITATIVE EVALUATION

A) Summary

- | | |
|--------------------------|--|
| 1. Performance: | Fairly good |
| 2. Poverty: | Fairly poor (per capita income probably below US\$200) and with very marked regional disparities in income levels. |
| 3. Creditworthiness: | Creditworthy for conventional debt with reasonable financial policies. |
| 4. Bank/IDA eligibility: | Eligible for Bank lending; potential candidate for IDA on blend basis though not eligible under present criteria. |

B) General Evaluation

Brazil has the resource endowment, market size and human potential to become a major industrial power in a generation. Its political system is still evolving; the present supremacy of the military may well erode in a few years as a new generation of civilian politicians, untainted by past corruption and intrigues, emerges. The medium-term growth prospects are still dominated by the legacy of the fast but unbalanced growth of the fifties which was accompanied by inflation and growing distortions in the allocation of resources. The industrial base is relatively broad and includes Latin America's most advanced capital goods industries. But it also includes many inefficient establishments and is based on a precarious financial structure. A vigorous commercial agricultural sector exists, but overall land resources are still very underutilized. Regional differences of degree of development and living standards are excessive. Given time, foreign assistance and a market-oriented economic policy, these obstacles can be overcome. Gross external capital inflows of some US\$600 million per year - more than half of which is needed for debt amortization - should be compatible with average annual growth rates of GDP of 5-6 percent and with a declining debt service ratio in the next few years; once the inheritance of distortions and inflation has been overcome, growth and capital requirements could well become substantially greater.

Substantial reforms have been undertaken in the past three years with a view to bringing inflation under control, restoring external creditworthiness and eliminating the multiple distortions and inefficiencies which had been allowed to accumulate in the past and which were seriously interfering with the economy's growth potential. Progress has been considerable, although neither complete nor uninterrupted. The fiscal deficit was reduced, public utility prices were raised to economic levels, the deficits - in real terms - of public enterprises have declined and an exchange rate policy which offered some incentives to the development of new exports was pursued. Moreover, a beginning was made in framing a policy toward the coffee sector that would discourage the production of uneconomic surpluses. The rate of inflation declined from almost 90 percent in 1964 to under 25 percent in 1967, although favorable foodcrops contributed materially to this result. The Government that took office in 1967 faced some new difficulties in that some of the administrative reforms undertaken in 1966 turned out to be far more expensive than had been planned, but it seems to have the situation better in hand by now; its general policy orientation is oriented toward renewed growth without sacrifice of the stabilization goal.

Brazil

Economic Committee

March 1968

BRAZIL

The latest economic mission, after discussing its draft report with the Government in August 1967, had confirmed its earlier impression that the control of inflation was likely to be a difficult and protracted process, and that stabilization could not be expected in 1968. It also concluded, however, that the Government appeared committed to pursuing policies designed to reduce inflation and stimulate growth, and that the maintenance of an efficient allocation of resources through realistic pricing and exchange policies was an important part of these policies.

Conclusions of Economic Committee:

September 12, 1967 (Special Meeting):

Performance Criteria:

There was a consensus that performance would have to be assessed by (a) how Government policy affected the efficiency in the allocation of resources in an inflationary environment, and (b) how effective and consistent efforts were to reduce inflation itself. The meeting supported the Western Hemisphere Department's objective of giving maximum operational significance to the performance criteria by emphasizing specific but important indicators (such as the exchange rate, and the deficits of the Federal Government) which would be measurable. However, the meeting agreed that not all the major performance criteria could or should be quantifiable.

The Chairman emphasized the importance of using comprehensive criteria to evaluate Brazil's long-run development strategy and achievements, in addition to specific, but short-run and relatively limited tests, such as monetary criteria. In this connection, he supported the intention of the Western Hemisphere Department to introduce criteria, in connection with proposed road loans, which would also require adequate performance in other parts of the transportation sector, especially railroads and shipping. Improvements in the management of these agencies would have much wider repercussions, helping to reduce the deficits of the Federal Government and improving the utilization of the country's resources.

It was agreed, in view of the prospects of further inflation, that the exchange rate was a highly significant operational test since it would determine the possibility of continued increases in non-traditional exports, especially manufactures. It was expected that the Brazilian Government would confirm its policy of maintaining realistic exchange rates.

It was also agreed that periodic reviews of overall economic management, including fiscal performance, would have to be made. In response to the Chairman's question, Mr. Alter confirmed that at no time during 1967-1969 would the Bank be committed to the balance of the proposed \$110 million lending program, independent of the country's performance on overall economic management.

Recommendation

The Chairman concluded that there were important uncertainties in the Brazilian picture but sufficient progress was being made to proceed further, as recommended. The approach and criteria which had been agreed should enable the Bank to make an effective and continuous evaluation of Brazil's economic performance. Assuming their implementation, and in view of Brazil's expected gross capital requirements and the need to avoid any reemergence of serious debt servicing difficulties, he endorsed on economic grounds the proposed \$110 million lending program and the terms of lending recommended by the Western Hemisphere Department, which were,

- (a) loans, on average, should be for 20 years, including a 5-year grace period; and
- (b) the Bank should cover some part of the local currency costs of projects.

II. BASIC DATA

	1950	1955	1960	1965	1966
AREA (1000 sq. km.)					8,512
EXCHANGE RATE (cruzeiros per US\$) /a	..	66.8	205.1	2,200	2,200
POPULATION					
Total (millions)	51.4	60.0	69.7	80.8	83.2
Density (inhabitants per sq. km.)	6	7	8	9	10
Urban population (% of total pop.)	36	..	45	..	..
Literacy rate (% of adult pop.)	49	..	61/b	..	..
GROSS NATIONAL PRODUCT (at current f.c.)					
Total (mil. US\$)	6,041	9,221	13,914	18,362	19,708
Per capita (US\$) /c	116	152	196	224	233
TOTAL RESOURCES (bil. current cruzeiros)	250	690	2,455	29,876	43,897
By source:	101.5	100.7	98.5	103.1	101.1
gross domestic product (%)	-1.5	-0.7	1.5	-3.1	-1.1
net imports of goods & services (%)					
By use:					
consumption (total) (%)	88.4	84.3	83.0	88.6	87.0
gross domestic investment (%)	11.6	15.7	17.0	12.4	13.0
GROSS NATIONAL SAVING (as % of GNP at market prices)	12.2	15.5	15.0	17.1/d	..
TAX REVENUE (as % of National Income)	..	21.3/e	27.3	30.4/d	..
GROSS DOMESTIC PRODUCT at current f.c. (%) /f					
Agriculture	28.6/g	29.7	28.2	29.2	28.4
Mining	..	..	..	..	..
Manufacturing /h	23.8/g	24.6	25.8	25.5	27.9
Construction	..	..	..	..	..
Transport & communication	7.4/g	7.5	7.6	..	..
Public administration & defense	7.6/g	7.3	7.8	..	..
Other branches	32.6/g	30.9	30.6	..	..
EXTERNAL PUBLIC DEBT					
Total debt outstanding (US\$ mil.)	..	..	..	..	3,321
of which: undisbursed	..	..	..	..	757
Total annual debt service (US\$ mil.)	..	185	554	505	573
Debt service ratio (%)	..	10.6	33.7	26.3	27.4

/a Free rate. /b Population 10 years and over.

/c Provisional estimate which may be subject to considerable downward adjustment as a result of a special study now under way.

/d 1964. /e 1956. /f Data relate to GDP at market prices.

/g Relates to NDP at market prices.

/h Includes mining, construction, and utilities.

II. BASIC DATA (cont.)

	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1965</u>	<u>1966</u>
BALANCE OF PAYMENTS (US\$ mil.)					
Merchandise exports (f.o.b.)	1,359	1,419	1,269	1,596	1,730
Merchandise imports (f.o.b.)	934	1,099	1,293	941	1,270
Net merchandise (f.o.b.)	425	320	-24	655	460
Service receipts (excl. invest. income)	42	118	190	136	140
Service payments (excl. invest. income)	249	348	493	335	368
Net services	-207	-230	-303	-199	-228
Net investment income receipts	-110	-117	-194	-258	-240
Surplus on Current A/C (excl. transfers)	108	-27	-521	198	-8
CONCENTRATION OF MERCHANDISE EXPORTS (%)					
Coffee	64	59	56	44	44
Cotton	8	9	4	6	6
Cocoa beans and butter	6	7	7	3	4
Sugar	--	2	4	3	5
Iron ore	--	2	2	6	6
FOREIGN TRAVEL RECEIPTS (as % of total exports of goods and services)	*	1	2	2	2
EXTERNAL TRADE INDEXES (1959 = 100)					
Export price index	122	131	98	126	..
Import price index	142	121	105	127	..
Terms of trade	86	108	93	99	..
INTERNATIONAL RESERVES					
Total gross reserves (US\$ mil.)	724	508	359	555	461
of which: commercial bank holdings	58	17	14	50	52
Months' imports of goods and services	7.3	4.2	2.4	5.2	3.4
IMF POSITION (US\$ mil.)					
Quota	150	150	280	280	350
Drawings outstanding	38	66	140	159	120

III. ANNUAL AVERAGE RATES OF CHANGE (%)

	<u>1951-59</u>	<u>1960-65</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
POPULATION (total)	3.1	3.0	3.0	3.0	3.0
GROSS DOMESTIC PRODUCT (real)					
Total	5.9	4.6	3.1	3.8	4.5
Per Capita	2.7	1.6	0.1	0.8	1.5
TOTAL MEANS OF PAYMENT	21.0	60.8	85.1	74.7	21.3
Money	23.0	62.1	85.9	75.4	16.3
Quasi-money	8.3	37.6	62.3	54.1	190.2
BANK CREDIT OUTSTANDING					
To central government (net)	34.1/ <u>a</u>	68.2	101.6	62.5	25.7
To private sector	21.2/ <u>a</u>	54.3	79.8	56.7	30.1
PRICES					
Cost of living index	20.3	57.0	87.6	61.8	46.6
Wholesale price index	18.6	55.3	91.7	52.8	40.2
GDP implicit deflator	17.5	52.5/ <u>b</u>	90.8	..	..
EXPORTS AND IMPORTS (based on current US\$)					
Exports of goods and services	0.3	3.2	2.0	11.3	8.0
Imports of goods and services	3.6	-3.9	-15.3	-3.9	28.4

/a 1953-1959.

/b 1960-1964.

IV. SELECTED RELATIONSHIPS - PERCENT OF GROSS DOMESTIC PRODUCT
(based on values at current market prices)

	<u>1950-59</u>	<u>1960-65</u>	<u>1955</u>	<u>1960</u>	<u>1966</u>
EXPORTS AND IMPORTS					
Exports of goods and services	8.3	8.4/a	8.8	6.9	9.1/b
Imports of goods and services	8.8	9.1/a	8.1	8.4	7.8/b
INVESTMENT AND SAVING					
Gross domestic investment	15.8	17.6/a	15.5	17.3	16.5/b
private fixed investment	10.3	11.1/a	11.0	11.3	9.5/b
public fixed investment	4.1	5.0/a	3.2	5.2	4.8/b
increase in stocks	1.4	1.5/a	1.3	0.8	2.2/b
Deficit on current account	1.2	1.5/a	0.1	2.4	-0.6/b
net imports of goods and services	0.5	0.7/a	-0.7	1.5	-1.3/b
net factor payments to abroad	0.7	0.8/a	0.8	0.9	0.7/b
Gross national saving	14.6	16.1/a	15.4	14.9	17.1/b
CENTRAL GOVERNMENT OPERATIONS /c					
Current receipts			11.0/d	13.4	18.2
Current expenditure			11.8/d	12.1	13.7
Saving			-0.8/d	1.3	4.5
Capital receipts			..	..	..
Capital expenditure			1.4/d	4.5	6.1
of which: central government					
capital formation			..	..	..
Overall Budget Surplus			-2.2/d	-3.2	-1.6
External loans and net grants and					
transfers received			..	..	..
of which: on current account			..	..	..
Domestic borrowing (net)			..	..	..
Cash balance: increase(-) decrease(+)			..	..	..

/a 1960-1964.

/b 1964.

/c Budget and special funds.

/d 1956.

BRAZIL

V. EXTERNAL FINANCIAL ASSISTANCE

(In millions of US\$)

	<u>Past Average (1963/67)</u>		<u>Recent Year (1967)</u>	
	<u>Commitments</u>	<u>Disbursements</u>	<u>Commitments</u>	<u>Disbursements</u>
<u>Total</u>	n.a.	204.0	n.a.	321.0
Soft assistance <u>/1</u>	205.0	132.0	204.7	175.0
Hard assistance	n.a.	72.0	n.a.	146.0
<u>of which:</u>				
IBRD	54.0	6.9	40.0	12.3
AID	168.0	114.0	150.0	151.0
IDB	69.6	25.0	101.4	65.0
Eximbank	25.0	11.6	30.0	18.5
Others	n.a.	46.5	n.a.	74.2

/1 Includes loans from AID, and the Fund for Special Operations as well as Social Progress Trust Fund of IDB.

International Finance Division
Economics Department
April 17, 1968

VI IBRD AND IDA OPERATIONS

(In millions of \$)

A) <u>Past operations</u> to March 31, 1968	<u>Amount committed</u> /1	<u>Amount disbursed</u>
IBRD	558.1	286.1
IDA	-	-
Total	558.1	286.1

/1 Net of cancellations

B) <u>Terms of IBRD/IDA operations</u> (January 1, 1961 - March 31, 1968)	Rate of interest (p.a.)	Weighted average Grace period (years)	Repayment period (years)
	5.882	5.6	22.6
C) <u>Record of IDA commitments</u> to March 31, 1968			

Nil

D) <u>Record of Bank commitments</u> to March 31, 1968	<u>Project</u>	<u>Date</u>	<u>Amount</u>
Loan 65	Railways	6/27/52	12.5
. 75	Roads	4/30/53	3.0
. 92	Railways	12/18/53	12.5
. 516	Agriculture	9/23/67	40.0
. 11	Power & communications	1/27/49	75.0
. 11	Power	1/18/51	15.0
. 95	Power	2/24/54	18.8
. 229	Power	6/17/59	11.6
. 25	Power	5/26/50	15.0
. 64	Power	6/27/52	25.0
. 76	Power	7/17/53	7.3
. 442	Power	3/15/66	49.0
. 93	Power	12/18/53	10.0
. 187	Power	1/22/58	13.4
. 404	Power	2/26/65	22.5
. 211	Power	10/ 3/58	73.0
. 403	Power	2/26/65	57.0
. 474	Power	12/19/66	39.0
. 475	Power	12/19/66	6.2
. 476	Power	12/19/66	8.1
. 477	Power	12/19/66	41.0
. 478	Power	12/19/66	6.3
. 526	Industry	1/26/68	22.0

Statistical Services Division
Economics Department
April 17, 1968