

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Brazil - Clausen Country Files - Correspondence - Volume 3

Folder ID: 1774605

Series: Country Files

Dates: 08/24/1983 - 07/27/1984

Subfonds: Records of President A. W. Clausen

Fonds: Records of the Office of the President

ISAD Reference Code: WB IBRD/IDA EXC-09-3965S

Digitized: 01/03/2023

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000


Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

Clausen's: Brazil

Vol 3



 **Archives**
1774605
A1990-013 Other #: 4 208487B
Brazil - Clausen Country Files - Correspondence - Volume 3

DECLASSIFIED
WBG Archives

OFFICE MEMORANDUM

DECLASSIFIED

APR 07 2011

WBG ARCHIVES
CONFIDENTIAL

DATE: July 27, 1984

TO: Mr. A. W. Clausen, President
(Through Messrs. S. S. Husain, Acting SVPOP and
R. Steckhan, Acting RVP, LAC)

FROM: Roberto Gonzalez Cofino, Acting Director, LC2

SUBJECT: BRAZIL - Briefing Note for the Meeting with Minister Antonio
Delfim Netto and Dr. Celso Pastore

1. On Monday July 30 you are scheduled to meet with Planning Minister Antonio Delfim Netto, Central Bank President Affonso Celso Pastore and other Brazilian Government economic policy-making officials. They are coming to Washington to discuss the prospects of using the Bank's new cofinancing arrangements as a vehicle in undertaking Brazil's 1985 external financing program with the commercial banks. Also likely to be raised are issues concerning some FY85 policy-based lending operations. Minister Delfim and Dr. Pastore have been preceded by a Government delegation led by Ambassador José Botafogo Gonçalves to discuss the more technical aspects of any possible cofinancing arrangements and related project issues.

Background: The Current Political and Economic Situation

2. The successor to President Joao Figueiredo is to be indirectly elected in January 1985 by an electoral college and to begin his term in March. President Figueiredo, whose principal objective was to manage the transition from military to civilian democratic government, is concluding his term in an atmosphere of uncertainty over the political future of the country. The Government PDS party is divided over the choice of a new presidential candidate. The main wing of the party tends to favor Federal Deputy Paulo Maluf, the ex-governor of Sao Paulo, who has little popular support but appears likely to gain the nomination at the PDS convention. The opposition PMDB party, along with the dissident "Liberal Front" of the PDS, is tending to support Governor Tancredo Neves, whose experience and moderate views extend his popularity well beyond his state of Minas Gerais. In order to avoid a divisive and difficult transition, a consensus candidate, such as Governor Neves, would need to be found. This will be important to maintain social peace, which has so far withstood a continuing recession, declining real incomes, rapid inflation, and lack of confidence in the nation's economic managers. The present economic team is hoping to complete the year by maintaining the thrust of stabilization measures, and to complete, with international cooperation, the negotiation of the 1985 financing program with the commercial banks. Commercial banks may wish to move somewhat more slowly, until the political situation is clarified and some indication of the new government's willingness to accept the agreements is apparent.

3. The present year marks the fourth consecutive year of recession in Brazil, marked by a decline in per capita income to 1976 levels. The reduction in aggregate economic activity has been brought about by the exercise of austerity-oriented economic policy measures undertaken for balance-of-payments adjustments purposes. Brazil is pursuing a stringent stabilization program for 1984, directed externally to attaining an unparalleled US\$9 billion surplus in commodity trade (as compared to the record trade surplus of US\$6.5 billion in 1983). Internally, the stabilization program is directed to a continued substantial reduction in the deficit in the public sector's operational budget, from 2.5% of GDP in 1983 to a surplus of 0.3% in 1984. So far this year, the program appears to be on track in meeting these objectives. Our preliminary indications are that the Government is in compliance with all the performance requirements in the IMF program for the second quarter. The balance-of-payments performance has been highly satisfactory, with exports growing by more than 20% in the first half of 1984 as compared with the same period a year before. Our present projection is that the trade surplus for the year will be around US\$10.5 billion. Reserves have accumulated more than anticipated, providing a greater foreign exchange cushion and increasing the country's bargaining position vis-à-vis the IMF and the commercial banks, while contributing, at the same time, to a greater domestic monetary expansion than expected at the beginning of the year.

4. The internal results of the stabilization program are less encouraging than those for the external side. While substantial reductions in the operational deficit of the public sector and in real money balance have occurred, inflation (currently running at a cumulative annual rate of 226%) has not fallen. The IMF supported stabilization program continues to be based upon the assumption that the inflation is caused by excess aggregate demand. However, the economy's degree of indexation and the resilience of inflationary expectations have illustrated the importance of the supply side dimensions of the inflationary process and raise doubts whether the current inflation in Brazil is purely, or even mainly, an excess demand phenomenon. The characteristics in this respect of the stabilization policy to be followed in 1985 are likely to become an important issue in the negotiations between Brazil and the Fund on next year's economic program.

Cofinancing

5. This issue has been dealt with in a separate memorandum from Mr. Husain to the Management Committee. We have been discussing this week with a Brazilian technical team cofinancing techniques, and the possibility of undertaking three cofinancing operations -- for the power and highways sectors and for the National Development Bank (BNDES). Their amounts are still tentative, but should reach a total of about \$2.0-\$2.5 billion. It was agreed with the Brazilians to defer consideration, for the time being,

of the possible cofinancing of the proposed Export Development Loan. The Brazilians raised today the possibility of an additional cofinancing arrangement in support of the steel rehabilitation program which is now being prepared, and they may ask you to consider such possibility. We have told them that we are not in position to give a positive opinion in this respect. I suggest that you tell them that, while we will study the rehabilitation plan when it is ready (probably in September or October), it would be difficult for the Bank to undertake this particular arrangement in time for the Brazilian negotiations with commercial banks on the 1985 "new money" package.

Policy Conditionality for the Second Export Development Loan

6. Substantial progress has been made at the technical level in agreeing ad referendum on a series of policy measures to be supported by the loan. These measures include (a) the extension of the drawback system to include domestic suppliers of exporters, building upon the liberalization measures taken as a part of the FY84 Export Development Loan; (b) import liberalization measures, including immediate reductions in nontariff barriers, the removal of import surcharges, the lowering of average tariff levels, and the reduction of tariff dispersion; and (c) reform of the export financing system through the expansion of credit availability to exporters and the increase of interest rates for such credit. The import liberalization measures still have not been formally approved at the ministerial level, and Minister Delfim may wish to discuss this with you.

Policy Conditionality for the Proposed Second Agriculture Sector Loan

7. We were given this week a preliminary indication of the Government's proposals for meeting a part of the Bank's desired conditionality for the second agriculture sector loan. Because of its feared impact on domestic prices, the Government remains reluctant to remove restrictions on corn and soy exports during the present crop year but will propose increased export limits and the freeing of import during the interharvest period. It will, furthermore, commit itself to remove all export and import restrictions on corn, soy, rice and other crops for the next harvest, subject to a pre-defined mechanism for stabilizing large, abrupt world price movements, in addition to the freeing of trade in agricultural imports.

8. Although we cannot evaluate the proposal until we have seen more of the details, it does appear that the Government has moved significantly toward our viewpoint. We have not yet received their proposals regarding the financial sector conditionality proposed for this loan. I suggest that you ask Minister Delfim about his views on these policy measures.

cc: Messrs. Husain
Knox (o/r)
Ohuchi (o/r), Vibert, VPCOF
Gue, LC2DR (o/r)
van der Meer, LCPDR

WTyler/NOTcheyan/RGCofino/FLevy:cap:cgm

OFFICE MEMORANDUM

DATE: June 8, 1984

TO: Memorandum for the Record

FROM: Mr. Florent Agueh, LC2DA

EXTENSION: 72713

SUBJECT: BRAZIL - Record of the Meeting Between Mr. Clausen and
Minister Antonio Delfim Netto - May 9, 1984

211

7-30-84

1. This is to record the main points discussed and conclusions reached at a meeting held between Minister Delfim and Mr. Clausen on May 9, 1984 in Washington. Other participants in the meeting were, on the Brazilian side, Ambassador Botafogo, and on the Bank side, Messrs. Stern, Gonzalez Cofino, and myself.

Current Economic Situation in Brazil

2. Minister Delfim opened the meeting by expressing his appreciation for the Bank's strong support and increased lending to Brazil during the difficult years the country has been going through. He stressed that there were no differences of views between Brazil and the Bank on policy directions though there could be at times different perceptions of the appropriate timing for implementing some of the policy measures recommended by the Bank. He proceeded to give a quick rundown of recent improvements in Brazil's economic situation. Exports were doing well and for 1984, a US\$10 billion trade surplus appeared within reach. This better-than-expected performance on exports would allow some increase in imports. The Minister noted, however, that no major pressure was being exerted against imports. The major part of reductions in imports achieved in recent years were accounted for by petroleum products. Also, some permanent gains were derived from successful private initiative-led import-substitution efforts. The employment picture was beginning to brighten; industrial and agricultural production were expanding at a yearly rate of 2-3%, and 5-6%, respectively, with the year-end rate of growth of GDP expected to be in the range of 2-2.5%. The remaining major area of concern was inflation, which continued at a rate of 9% per month, although there are some signs that the rate is slowly abating. The Government's target inflation rate for 1984 is 120-130%. Minister Delfim pointed to indexation as one of the factors of rigidity hampering the Government's efforts towards bringing down inflation. He did not elaborate further on this, although he later noted that without indexation, even a 30% yearly inflation rate would be unbearable.

Relations Between Brazil and the Commercial Banks - Cofinancing

3. The discussions then turned to Brazil's external capital requirements for 1985 and cofinancing prospects. Minister Delfim indicated that new money requirements from the commercial banks for 1985 were

expected to be lower than in 1984 and would be on the order of US\$3-4 billion, assuming the expected trade surplus for 1984 does materialize. Minister Delfim also indicated that other changes in the refinancing arrangements, such as capitalizing accrued interest payments, would affect the 1985 external financing needs and would be sought by the Government.

4. Mr. Stern reported on talks he had had with several commercial banks, particularly Morgan Guaranty earlier that week. These talks indicated that commercial banks had in mind a lower new money figure for Brazil than indicated by Minister Delfim. They were also inclined to get negotiations for the 1985 financing program started as soon as possible in order to avoid the hectic pace which characterized previous years' negotiations. The commercial banks were highly receptive to exploring a number of large-scale prospective cofinancing operations, which are at an initial phase of discussion between Brazil and the Bank (i.e. power sectoral operations, among others), and would appear ready to apply a portion of their 1985 new money commitments towards such cofinancing operations with the Bank under substantially improved terms and conditions. One scheme which has been found particularly attractive would involve financing or guaranteeing of late maturities by the Bank, linked with concession by the commercial banks of longer maturities, and fixed semi-annual payments based on agreed reference interest rates. The World Bank would be willing to undertake a contingent liability associated with the fact that actual interest rates may exceed the agreed reference interest rates. The benefit to Brazil would be in obtaining appropriate maturities (up to 15 years) for sectorwide priority investment programs, making its adjustment efforts less interest rate sensitive.

5. Minister Delfim expressed strong interest in pursuing these cofinancing opportunities. He indicated that the Government's past reserved posture toward cofinancing was changing and that he and Minister Galveas now see cofinancing in a more positive light. It was agreed that the Government and the Bank would cooperate in order to complete the preparation and review of proposals, such as the ones being put together for the power and steel sectors, in time for the initiation of the discussions of the 1985 program between the Government and the commercial banks. In the meantime, specific operations such as Bank participation in the syndicated guarantee for the Carajas project could proceed.

Disbursement Problems Under Existing Bank Loans

6. Mr. Clausen inquired about delays in disbursements being experienced under existing Bank loans, especially those involving resources for credit and those affected by procurement restrictions arising from the Secretaria Especial de Informatica (SEI) controls. Regarding Bank loans involving credit resources, Minister Delfim indicated that the disbursement difficulties were caused primarily by attempts being made by the Government, as part of their commitments to the

IMF, to bring about a drastic reduction in the monetary base and the money supply. The target for the expansion of base money for 1984 has been set at 50% in nominal terms, while inflation is currently running around 225% annually. He said that he would raise the matter with Mr. de la Rosiere that same day with a view to obtaining some relaxation in the above money base target. (We subsequently learned that the matter was not raised during the meeting between Minister Delfim and Mr. de la Rosiere. The Minister has found it more advisable to discuss the matter first with the IMF mission which was scheduled to visit Brazil in May). Mr. Clausen noted that some staff-level exchanges on the matter had taken place between the IMF and Bank, but that it was a matter to be resolved primarily between the Government and the IMF.

7. Regarding delays in import licensing by SEI, Minister Delfim explained that he recently agreed with Minister Venturini (to whom SEI reports) that all pending cases should be processed expeditiously. The implication was that these pending requests would be granted. Furthermore, the process of SEI involvement in projects to be financed by the Bank will be changed. The proposed new process would entail a review of project proposals by SEI prior to their submission to the Bank in order to avoid late and disruptive SEI interferences. Mr. Clausen pointed to the risk of bureaucratic delays associated with that proposal, and Mr. Stern noted that the key issue was the implications for technological progress of excessive protectionist controls in a rapidly changing field. Minister Delfim said that a proposed law about to be submitted to the Parliament would address the protectionism issue. He indicated that a formal reply to Mr. Clausen's letter of April 23, 1984 on the SEI issue was forthcoming.

Policy Conditionality for the Agricultural Sector Loan

8. Mr. Clausen asked Minister Delfim about the progress of discussions of policy conditionality for the agricultural sector loan. Minister Delfim first noted that Bank policy advice in agriculture has been extremely beneficial and contributed substantially to the positive developments being observed in Brazilian agriculture in recent years. He stressed that the Government has made substantial progress towards the liberalization of agricultural trade and was prepared to make further progress in that direction. He noted that it was important, however, that liberalization decisions regarding specific commodities be introduced under optimal conditions (i.e., after a good harvest) and appropriate mechanisms be devised against erratic short-term movements in international prices, and referred to recent price movements concerning soybeans. Mr. Clausen concluded the discussion of this item by stressing the need for the Government to take quick action on corn in time for the August/September planting and to allow corn exports. Minister Delfim concurred in general with this. Messrs. Clausen and Stern, responding to Minister Delfim's wish, indicated that the Bank will make every effort to have the loan ready by August 1984.

Other Points Discussed

9. Minister Delfim raised the issue of diesel pricing being discussed between the Government and the Bank in connection with the federal highways sector project. He said that almost every 60 days, diesel price is increased at a higher rate than gasoline price. The diesel/gasoline price ratio which was .53 in January 1983 is now around .7. The Government expects to reach a ratio of .85 within a year. It was agreed that this particular issue would be dealt with during negotiations for the above loan. Minister Delfim stressed that the Government was in full agreement with Bank policy recommendations regarding energy. There is hope, he said, that Brazil could become self-sufficient in oil in the next five years.

10. At the conclusion of the meeting, Minister Delfim expressed the wish that the Bank maintain its level of assistance to Brazil in the years to come. Mr. Clausen alluded to constraints associated with Brazil's share in Bank portfolio but said that continuing performance on the part of Brazil was the key.

cc: Messrs. Stern

Ohuchi

Knox

Pfeffermann (LCNVP)

van der Meer (LCPDR)

Lerdau (LC2DR)

Dolenc, Quijano (LCNVP)

Glaessner, van Gigch, Jennings, Wessels (LCPDR)

Levy (LC2DR)

Martinusen (LCPAB)

Keare (LCPED)

Renger (LCPII)

Shields (LCPT1)

Moscote (LCPE1)

Yepes (LCPWS)

Rothschild (LCPUR)

Brazil Division

Fagueh:nps

OFFICE OF THE PRESIDENT
JUN 15 1984
RECEIVED

OFFICE MEMORANDUM

DATE: May 8, 1984

TO: Mr. A. W. Clausen

FROM: Enrique Lerda, Acting Regional Vice President, LAC

EXTENSION: 75901

SUBJECT: BRAZIL - Briefing Note for Meeting with Minister Antonio Delfim Netto

Key Points

1. On May 9, at 11:30 a.m. you are scheduled to meet with the Brazilian Government's Minister of Planning Dr. Antonio Delfim Netto. Minister Delfim has requested the meeting, and it is expected that he will raise three main questions: (a) Government's objections to sending a "Letter on Development Policies" to the Bank; (b) problems with Bank disbursements as imposed by the limitations of the Government's IMF supported stabilization program, particularly as regards to the monetary budget; and (c) disbursement problems arising from import licensing restrictions imposed by the Special Secretariat for Informatics (SEI). I suggest that you use the opportunity to also bring up matters related to (i) the policy conditionality of the proposed agricultural sector loan, and (ii) cofinancing possibilities.

Letter on Development Policies

2. We had proposed previously that a Letter on Development Policies be sent to the Bank before processing the FY85 loans. Minister Delfim has indicated that this would not be feasible politically, and I believe that we should not press this matter further. I recommend, however, that you stress the importance of the Government's formulating a medium-term strategy for structural adjustment and economic recovery. In this context, it is important that the Bank's policy conditions, agreed to in principle as a part of our lending program, be agreed to in their specifics as soon as possible thus providing the framework for the planned individual lending operations. (See attached FY85 Lending Program). It is on this basis that loan preparation is proceeding. If delays in loan processing are to be avoided, high level government attention must be provided to assure early agreement on policy specifics.

Bank Disbursements and the 1984 Monetary Budget

3. Fiscal and monetary austerity measures, undertaken as a part of the Government's IMF-supported stabilization program, have caused delays in Bank disbursements of existing loans. With fiscal restraint, obtaining counterpart resources for Bank projects has been difficult during the past several years. Now Bank projects with credit components are also experiencing disbursement delays because of monetary restraints. Brazil's monetary budget for 1984 covers the net expansion of high-powered, or base, money and includes a number of credit lines for the private, as well as the

public, sector. As part of the stabilization program, the target for the expansion of base money (and also M1) for 1984 has been set at 50% in nominal terms. Since inflation is currently running around 225% annually, this implies a dramatic real reduction in the monetary base and the money supply.

4. For Bank loans involving resources for credit, there are both difficulties with the provision of counterpart resources domestically and insufficient domestic currency resources in the monetary budget to monetize the Bank's foreign exchange loans. Given the sharp real reduction in money supply referred to above, the Brazilians have not found it possible to reduce other items in the monetary budget in order to attach higher priority to the allocation of cruzeiros for facilitating the disbursement of Bank loans. Disbursements of these loans have, therefore, slowed substantially over the last four months.

5. The Brazilians have suggested two possible ways in which the Bank could help them to cope with the situation described above. The first one would be to increase the Bank participation in ongoing credit projects. Since the domestic monetization of the foreign exchange provided by these Bank loans would be considered, according to the guidelines agreed upon with the IMF, as monetary expansion, this would not help to solve the problem. I suggest that you point this out to Minister Delfim, while also indicating that it would be difficult for the Bank to increase its share of these projects further, in view of the relatively high Bank participation in most ongoing projects already agreed upon under the Bank's Special Action Program.

6. Secondly, Minister Delfim is likely to ask you for Bank support vis-a-vis the Fund to obtain a relaxation of the monetary and/or fiscal targets in order to accommodate Bank disbursements without reducing other fiscal or credit expenditures planned by the Brazilians. I recommend that you tell Minister Delfim that, while our staff are discussing the issue at the technical level with the Fund, the possibility of changing targets agreed under the EFF arrangement depends basically upon direct Brazil/IMF negotiations, in which the Bank cannot be involved. I should also note, however, that the Brazilian position concerning the inadequacy, under present circumstances, of the planned monetary expansion seems well founded.

Delays in Import Licensing by SEI

7. As you know, in addition to difficulties related to monetary and fiscal austerity measures, we are also experiencing delays in disbursement because of problems presented by SEI, the Special Secretariat for Information. SEI, which is subordinated to the military through the National Security Council, increasingly controls all facets of the computer industry in Brazil. Its control includes, among other things, the issuance of its own import licenses for any equipment with electronic and computer components. SEI has repeatedly delayed the issuance of such licenses for Bank financed equipment to be imported under competitive bidding arrangements, thus impeding project execution and Bank disbursements. As a

means of easing this difficulty, we have requested (through your letter to Minister Delfim dated April 23) that the Government exempt Bank financed imports from SEI import licensing requirements. I suggest that you stress the urgency of adopting such solution. It should be noted, however, that SEI's position may have been strengthened by the recent publication by the Brazilian press of a cable from Washington summarizing the contents of Mr. Burnham's April 11 memorandum to me. Minister Delfim, who favors personally the general exemption, is expected to present you with a letter stating the Government position related to the Bank request.

Policy Conditionality for the Agricultural Sector Loan

8. I suggest that you reiterate the importance of both the agricultural commercial policy liberalization and the proposed credit and banking policy reforms as the policy basis for the proposed Agricultural Sector Loan. The Bank mission which visited Brazil on April 23-27 to review the policy framework of the FY85 lending program, discussed this matter with Ministers Delfim and Galveas. During those discussions, it became clear that the Government did not plan to go ahead now -- as previously indicated to us -- with the liberalization of trade in corn and soybeans, which constituted the most important policy decision related to this loan. I recommend that you confirm to Minister Delfim that -- as already indicated by the Bank mission -- it would not be feasible for the Bank to proceed with the Agricultural Sector Loan unless some substantial trade liberalization takes place, and progress continues concerning credit and banking reforms.

Bank Role in Cofinancing

9. I suggest that you discuss further the possible role of the Bank in pursuing cofinancing opportunities with Minister Delfim, stressing the possible advantages of Bank participation in obtaining better terms for Brazil. In the April 24-25 meetings in Brazil, Mr. Delfim and Finance Minister Galveas asked that no specific cofinancing possibility be discussed with the commercial banks without prior approval by the Government. Minister Galveas indicated that Brazil wanted to maintain its ability to negotiate with the commercial banks for additional financing and that the Government intended, beginning in September, to press for the rescheduling of all commercial bank debt coming due in 1984-87 as well as negotiate the new funds required for 1985. Minister Galveas, in fact, wished to limit the Bank to a single cofinancing operation specifically for the power sector and involving additional funds of US\$500-600 million. The President of the Central Bank, Mr. Affonso Celso Pastore, in contrast, would be in favor of a large cofinancing effort, including but not limited to the whole power sector rehabilitation program, and is planning to speak privately to the Ministers about expanding the Bank role.

10. In reiterating the possible Bank role in cofinancing, you might stress that the main benefit to be derived at this time would probably be an improvement in terms, rather than additional resources over and above amounts which the Government can negotiate directly. It is our understanding that new and rescheduled loans from commercial banks to Brazil in 1985 could be applied to specific Bank projects at better terms

May 8, 1984

than those which will be negotiated for the package. I recommend that you indicate to Minister Delfim that, to help the Government obtain those better terms, the Bank should be able to: (a) become involved, through cofinancing, in a substantial proportion of the total 1985 commercial banks financing; and (b) start now exploratory talks with commercial banks, of which we will keep the Government fully and timely informed.

11. I also suggest that you inform Minister Delfim about the steps that we are taking to secure cofinancing for the Carajas Iron Ore project, for which the Borrower, Companhia Vale do Rio Doce (CVRD), has requested Bank assistance. As you know, the Bank is now asking for authorization from its Executive Directors to negotiate a cofinancing guarantee facility in conjunction with a commercial bank guarantee on the second tranche (US\$60 million equivalent) of the European Coal and Steel Community (ECSC) financing for the project. By offering a partial guarantee, the Bank is enabling disbursements of ECSC to proceed under better terms, notably the lengthening of the proposed commercial bank guarantee from 9 to 10 years, with a management fee of 1% instead of 1.5% and a guarantee fee of 1.875% instead of 2%. Release of the ECSC tranche is expected to result in the resumption of disbursements by other cofinanciers.

Attachment

cc: Mr. Stern, o/r

WTyler/LYap/RGCofino:cgm/nev/nps

BRAZIL
Proposed Lending Program
(US\$ million)

FY 84

* Export Development I	352.0
* Agricultural Credit/Export Dev.	303.0
* Northwest Dev. III - New Settlements	65.2
* Supplemental Loan for Agriculture Projects	30.5
* Education V - Technician Training	20.0
* Parana Market Towns	52.7
* Eletrobras Distribution II	250.6
* Rural Electrification I	222.8
Education VI - Centerwest & North Basic Educ.	40.0
Sao Paulo Health Project	<u>57.2</u>
	(10) 1,394.0

FY 85

Highway VII - Rehabilitation (S)	210.0
Development Banking III	200.0
Agricultural Sector II	350.0
Export Development II	250.0
Rural Dev. Northeast Region	100.0
Alcohol Development II	200.0
Power Sector Financial Rehabilitation	150.0
Public Sector Management	<u>20.0</u>
	(8) 1,480.0

FY 86

Agricultural Sector III (S)	200.0
Energy Substitution-Eletermia (S)	300.0
Education VII - Science and Technology (S)	100.0
Rural Water (S)	20.0
Land Resources (S)	50.0
CODEVASF Irrigation	60.0
Northeast Region Rural Development	100.0
Rubber Tree Crops	100.0
Rural Electrification II	<u>250.0</u>
	(9) 1,180.0

* Already approved by the Board.

5/8/84

OFFICE MEMORANDUM

DATE: November 2, 1983

TO: Mr. A. W. Clausen
(Through Mr. E. Stern) *ad*

FROM: Nicolas Ardito Barletta *AB*

EXTENSION: 75901

SUBJECT: BRAZIL - Briefing Note for your Luncheon with the Brazilian Delegation to the Negotiations for the Rural Electrification and Power Distribution Projects - November 3, 1983

a) I hope you don't get into the lunch-for-negotiating-team's circuit too deeply. There are a lot and are not very good uses of time.

b) You should stress that the agreement we have reached on tariffs is less than we had hoped for and comes after many years of failure to live up to covenants. The rate of return is important to Brazil which must increasingly finance its own investments through higher savings. Tariff increases are never easy but they are essential and failure to live up to the revised schedule now agreed will lead to suspension of disbursements.

1. On Thursday, November 3, 1983, at 1:00 p.m. in "E" Building, Dining Room #6, you will attend a luncheon being given by Mr. Romualdez, Executive Director for Brazil, in honor of the new Brazilian Ambassador to the U.S.A., H.E. Sergio Correa da Costa, and the Brazilian delegation to the negotiations for the proposed rural electrification loan (US\$243.3 million) and the proposed second power distribution loan (US\$250.6 million). Also present will be:

General José Costa Cavalcanti, President of Centrais Eletricas Brasileiras (ELETROBRAS), and of the Itaipu binational company responsible for the construction and operation of the Itaipu hydroelectric power dam. A former Minister of Interior (1969-74) and Minister of Mines and Energy (1967-69), General Cavalcanti is considered to be one of the five leading candidates for President of Brazil in 1985. He paid you a visit on June 15, 1983 to exchange views on the relationship between ELETROBRAS and the Bank and the financial problems of the power sector being dealt with as part of the current loan negotiations;

the Ministry of Planning will be represented by three of Minister Delfim's closest aides, namely, Ambassador José Botafogo Gonçalves, Secretary for International Economic and Technical Cooperation, Mr. Nelson Mortada, Special Secretary for the Control of State Enterprises, and Mr. José Milton Dallari, Special Secretary for Supply and Prices; and

Mr. Masato Yokota, Financial Director of ELETROBRAS, will also be present.

The Bank's Role in the Power Sector

2. The Bank has provided extensive support to the sector, with 35 loans totalling about US\$1.9 billion. They have been for hydroelectric plants, associated transmission facilities and distribution systems in the southern, southeastern, and northeastern regions. Bank participation has contributed to improved sector organization and planning and has facilitated foreign commercial financing for the sector. As evidenced by the two loans being negotiated, the Bank has shifted its strategy of support from power generation (of which there is overcapacity) to power distribution and rural electrification. Our future lending will continue to emphasize rural electrification in support of the Government's objective

ES
11/2/83

of improving production and living conditions among rural communities in the interior. Another project which would allow industry to substitute considerable amounts of oil for electricity is also under consideration by the Bank (the so-called "Eletrotermia" project).

3. The definition and implementation of a tariff policy which would enable the sector to generate a sufficient portion of the funds required for sector investment and for reversing the deterioration of sector finances which occurred in the past ten years is a central sectoral issue being addressed as part of the current loan negotiations. We are reaching agreement with the Government on the necessary steps to achieve a 10% rate of return on remunerable investment provided for by law and reflected in loan agreements with the Bank by 1989. In order to ensure that this target will be met, specific tariff increases will be implemented in 1984 and 1985, and a joint review in ~~early 1986~~ ^{late 1985} of the adequacy of the power tariff policy will be undertaken, leading to a definition of tariff policy for 1986 and beyond consistent with the achievement of the financial rehabilitation objective.

Other Operational Matters

4. Implementation of our FY84 lending program is proceeding satisfactorily. Four loans for a total of US\$772.9 million have been approved so far in FY84, including a US\$65.2 million loan for the third phase of the Northwest region development program which will be signed in the morning of November 3 by Ambassador Sergio Correa da Costa. In addition to the current negotiations for the rural electrification and power distribution loans, negotiations for a fifth education project (US\$22 million) and for supplemental financing for ongoing agricultural projects (US\$30.5 million) are expected to be completed shortly. We expect the FY84 lending target of about US\$1.4 billion to be met.

5. Similarly, we are making good progress with the level of disbursements this year. So far, disbursements in Calendar Year 1983 have exceeded US\$1 billion against a target level of US\$850 million for the year as a whole. We now expect 1983 disbursements to reach about US\$1.2 billion as compared to US\$623 million in 1982.

Relationship Between Brazil and the IMF

6. We have been advised by Minister Galveas that the new draft Decree Law providing for wage adjustments (Decree Law 2065) which has been prepared in consultation with the PDS leadership stands a good chance of being approved by the Brazilian Congress, prior to November 18 when the IMF Executive Directors are scheduled to consider the revised EFF agreement with Brazil. This congressional approval, if materialized as expected, would help dispel some of the current grave concerns over Brazil.

OFFICE MEMORANDUM

DATE: October 3, 1983

TO: Memorandum for the Record

FROM: Hendrick van der Heijden, Chief, Brazil Division, LC2

EXTENSION: 72031

SUBJECT: BRAZIL - Meeting Between Mr. Clausen and the Brazilian Delegation
to the Bank-Fund Annual Meetings, September 29, 1983

Participants: Minister Galveas, Ambassador Botafogo
Messrs. Pastore, Serrano, Kafka, Avillez
Messrs. Clausen, Stern, Ardito Barletta,
Lerdau, van der Heijden, Levy, Ms. Yap

1. Mr. Clausen congratulated the Government on its efforts in putting together the IMF agreement and complementary financing plan. The World Bank, he said, would support the Government in its implementation of the program, and the present World Bank commitment of US\$1.85 billion in disbursements to Brazil in CY83-84 should not be thought of as a maximum contribution.

2. Minister Galveas expressed the Government's appreciation of the Bank's support in this difficult period. The Government also views favorably the Bank's new emphasis on policy-based lending and would welcome the establishment of a Bank resident mission in Brazil. Such an office would facilitate the conduct of a broader policy dialogue and the change in direction of the lending program, as well as accelerate project disbursements.

3. The Delegation clarified several points regarding the recent understanding with the commercial banks to provide US\$6.5 billion in new funds for the remainder of 1983 and 1984. Terms of the commercial bank loans are expected to be the same as those of the Paris Club loans -- 8 years maturity, with 4 years of grace. In response to Mr. Clausen's query about the adequacy of the amount, the Delegation indicated that there is some cushion in the estimate to cover unforeseen difficulties. However, it should be noted that the US\$2.5 billion expected from official bilateral agencies, mainly in the form of export credit guarantees, may be a substitute for, not an addition to, other lines of credit and may have to be renewed later in the period.

cc: Mr. Clausen's Office

Messrs. Stern, Ardito Barletta
van der Meer, van Gigch, Glaessner (LCP)
Lerdau (LC2), Pfeffermann (LCNVP), Levy (LC2)
Martinusen, Renger, Ms. Insel (LCP)

LYap:nps

OFFICE MEMORANDUM

DATE: September 29, 1983

TO: Mr. Nicolas Ardito Barletta

FROM: Enrique Lerdau, Director, LC2

EXTENSION: 72011

SUBJECT: BRAZIL - Recent Developments on the IMF Program and Financing Package

Recent discussions with the Brazilian Delegation and the IMF staff indicate the following:

(a) The Managing Director of the IMF and the Brazilian Government have reached an understanding with the advisory group of the commercial banks that the banks will contribute US\$6.5 billion in new funds for the rest of 1983 and 1984. Arrangements for commitments from individual banks for this amount, and appropriate terms, are now proceeding. The US\$6.5 billion is part of a larger financing package, which also includes (based upon assurances received by Mr. de Laroisiere) US\$2 billion rescheduling of official debt (from Paris Club members) and US\$2.5 billion in new resources from official bilateral agencies (of which U.S. Eximbank US\$1.25 billion). Formal Paris Club approval of the rescheduling is conditional upon IMF approval of its agreement with Brazil.

(b) The IMF Board is presently scheduled to consider the revised IMF agreement on November 18, with distribution of the supporting documents planned for mid-October. Presentation of the revised agreement to the Board at that time, however, is dependent upon (i) notification that a substantial portion (probably 90%) of the commercial banks' contribution has been committed, and (ii) adoption of the wage law now before the Brazilian Congress limiting wage adjustments to 80% of the cost-of-living index or, in the case of rejection, adoption of a suitable alternative.

The Managing Director of the Fund is satisfied with the joint financing package, and with the terms of the revised agreement and intent of the Government to implement the austerity program.

Attachment

cc: Messrs. Clausen
Stern
Pfeffermann

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: September 26, 1983

TO: Files

FROM: Hendrick van der Heijden, Chief, Brazil Division, LC2

EXTENSION: 72031

SUBJECT: BRAZIL - Meeting Between Mr. Nicolas Ardito Barletta and the Brazilian
Delegation to the Bank-Fund Annual Meetings, September 24, 1983

Participants: Minister Galveas

Messrs. Pastore, Serrano, Rocha, Kafka, Avillez
Messrs. Ardito Barletta, Pfeffermann, Lerdau, van der
Heijden, Levy, Glaessner, Ohuchi, Ms. Yap

1. The discussion between Mr. Ardito Barletta and the Brazilian Delegation centered on the current status of the revised agreement with the IMF and joint IMF/commercial bank/Paris Club financing plan, as well as on the general prospects and conditionality for World Bank lending to Brazil.
2. Since the Bank's lending operations for the rest of CY83 depend on expectations of satisfactory conclusion of the stabilization/financing program, the Delegation was asked for an update on the status of the negotiations. IMF Board consideration of the revised agreement is now scheduled for the second half of November, a delay of two weeks to allow the Fund to be sure of adequate commercial bank commitment of resources. (The funding arrangements with the commercial banks are expected to be completed in eight weeks.) In addition, the Government's request for rescheduling of official loans was reported to have been well-received by the Paris Club, and is now being considered in more detail by the member governments. Since both the commercial bank and Paris Club actions are conditional on approval of the IMF agreement, all of the segments of the financing plan will probably not be finalized until December.
3. In response to the Bank's query on the Government's political resolve and capability for completing the agreement (especially in light of recent Congressional rejection of an earlier decree on wage adjustments), the Delegation emphasized that ratification of the most recent decree-law limiting cost-of-living adjustments to 80% of the consumer price index is fundamental to the country's stabilization program and that the Government is actively working to insure that the law is not rejected. (Under Brazilian legislative rules, a vote must be taken by the end of October, or the bill becomes law automatically.) As a fallback position, should Congress vote the law down, the Government is considering several alternatives to achieve the same effect; these alternatives were obviously not specified in the meeting. With respect to the rejection of the earlier

decree-law, Minister Galveas and Mr. Pastore considered it a political oversight and lamented the unwarranted uncertainty in the international community which the defeat had produced.

4. The Delegation was anxious to confirm the World Bank's funding commitment for 1983 and 1984. Mr. Ardito Barletta reiterated that the Bank would try to disburse US\$2.0 billion over the period, but emphasized that only US\$1.85 billion should be considered definite and that any excess should be treated as a cushion. The Bank's disbursement projections for 1983 and early 1984 were discussed in detail. In response to the Delegation's strong desire for the timely approval and signing of the agricultural and industrial sector loans, as a sign of World Bank support for Brazil, Mr. Ardito Barletta indicated his willingness to sign in Brazil the two sector loans, if approved by the Board on October 4, within the following week.

5. The conditionality associated with the World Bank's lending program beyond 1983, and the concrete steps which could be taken to expedite the formulation and processing of future policy-based operations were also discussed. Mr. van der Heijden described the four large policy-based, rapidly-disbursing loans scheduled for 1984 — the second industrial and agricultural sector loans, the agricultural credit loan, and the BNDES-related industrial credit loan — and stressed the need for giving priority attention at the highest policy level to the joint Bank-Brazil agricultural and industrial sector work program which would form the basis for these loans. For its part, the Bank will be sending a mission to Brazil in October to further next year's lending program. The Delegation responded positively to the suggestions, including that of discussing the Bank's recent debt study on Brazil with the Government in late October, and will convey them to Minister Delfim. The Delegation expressed strong support for the acceleration of policy-based operations by the Bank and the broadening of the accompanying policy dialogue.

6. Mr. Ardito Barletta also suggested, and the Delegation agreed, to explore the possibility for co-financing of one or more project loans with commercial banks, as a way of obtaining additional resources for Brazil, in the spring of next year, after the IMF agreement and financing plan are in place.

cc: Messrs. Ardito Barletta,
van der Meer, van Gigh, Glaessner (LCP)
Lerdau (LC2), Pfeffermann (LCNVP), Levy (LC2)
Martinusen, Renger, Ms. Insel (LCP)

 Lyap:nps

APR 07 2011

BRAZIL

WBG ARCHIVES

September 14, 1983

CGIAR

1983 ANNUAL MEETINGS BRIEFING PAPER

Population:	120.5 million (1981)
GNP per capita (current \$):	US\$2,220 (1981)
Lending Program FY83-88:	US\$7,957.5 million

Key points

The Delegation will most likely wish to discuss recent economic events in Brazil, the status of the IMF program, progress in the Government's negotiations with the international commercial banks in refinancing Brazil's external debt, the conduct of short-term economic policy, and the Bank's lending program. An update of this briefing on economic issues will be submitted prior to the Annual Meetings to reflect the most recent developments. Among our most immediate concerns are the acceleration of inflation, the availability of commercial bank lending, and the general drift of economic policy in a climate of accentuated uncertainty. Our on-going policy dialogue with the Government continues to focus on the need to reduce the public sector deficit, to define and enforce better public sector expenditure priorities, to rationalize agricultural and industrial policy incentives, to promote export development through trade policy liberalization, and to improve longer range policy planning, with a particular emphasis on achieving a better allocation of resources and expanded employment opportunities. Although the current economic team is sympathetic, at least in direction, with these points, the increased pressures of short-term policy-making associated with Brazil's current foreign exchange crisis have detracted their attention from longer term policy questions.

GENERAL AND ECONOMIC ISSUES

Political Events

A primary goal of President Joao Figueiredo's administration has been the restoration of democratic government in Brazil. In March 1983 the successful candidates of Brazil's first major elections since 1964 took office. Opposition leaders assumed the governorships of the major states of Sao Paulo, Rio de Janeiro and Minas Gerais. The government party also lost its majority in the increasingly important Congress, thus making it necessary to form a working coalition to pass major bills, such as the wage partial desindexation law presently before the Congress. To be sure, the on-going political opening (abertura) has been complicated by the current economic situation, which has undermined the Government's popularity. Political considerations have thus become more important in the formulation and implementation of economic policy, decreasing considerably the latitude for action on the part of policy-makers. Additional uncertainty has been

introduced into the political system as a result of the absence of President Figueiredo for medical reasons. Presidential elections, under rules yet to be fully defined, are scheduled for November 1984, and the political struggle for the presidential succession has already become intense. A commonly held fear is that the deteriorating economic situation could jeopardize the political abertura.

Aggregate Demand Management

Efforts to stabilize the economy, achieve macroeconomic adjustment, and reduce inflation have been proceeding since 1981. This is the third consecutive year of recession in Brazil, with GDP being expected to fall by 3-4%. Private investment has been substantially reduced, and employment in manufacturing has declined by about 20% over the past three years. Recent social disturbances in Sao Paulo and Rio de Janeiro attest to the difficulties faced by the Government in imposing austerity measures.

Despite the onerous nature of the current stabilization policies on real economic activity, the past few months have witnessed a disturbing acceleration of inflation, the 12-month cumulative rate increasing from 100% at the end of 1982 to 127% by June. Substantial reductions in the consolidated public sector deficit have not yet occurred, and zig-zags in government policies have contributed to uncertainty and inflationary expectations.

The stabilization effort has placed a heavy reliance on monetary policy. Restrictive monetary and credit policies, alongside the large public sector deficit, and coupled with the channeling of available financial resources into certain priority areas, have resulted in very high real interest rates in the relatively free portions of Brazil's segmented financial market. Real interest rates of 40-50% have become common. As a result, private investment has fallen dramatically, contributing in a major way to the continuing recession. Accordingly, the private sector has borne a disproportionately large share of the costs of adjustment.

External Debt and Financing Questions

Despite adverse international economic conditions, Brazil has achieved impressive monthly trade surpluses so far in 1983. Its extremely ambitious 1983 trade surplus target of US\$6 billion, regarded with skepticism at its announcement, will most likely be surpassed. At the same time, however, because of interest payments on its existing debt, Brazil will register a current account deficit of about US\$8 billion, or 3% of GDP. There has been no new voluntary lending by the commercial banks to Brazil since mid-1982. The year 1983 will be the second consecutive year for which Brazil will have registered a negative net medium and long term resource transfer. Reflecting the reduced availability of commercial bank M< lending and the underlying tightness in the balance of payments, there are no liquid reserves left, and Brazil's short-term indebtedness has grown substantially. The inter-bank credit portion, of the Government's international financing package for 1983 has experienced considerable shortfalls. As a result, an estimated additional US\$3-4 billion will be required for the remainder of this year.

Servicing the external debt has been an overriding concern of the current Government. So far, despite acute short-term liquidity difficulties, the Brazilian Government has managed to avoid commercial bank interest suspensions or unilateral debt rescheduling measures. Arrears, however, are reported to be about US\$1.5 billion. If more radical measures are to be averted, new monies will soon have to be made available to Brazil. A new external financing package from the commercial banks for the remainder of 1983 and for 1984 is expected as a subsequent part of a renegotiated agreement between the Brazilian Government and the IMF. Even if such an agreement is reached, however, the difficult external situation in Brazil may become unmanageable if domestic political forces do not accept the austerity program. A possible scenario, in such event, would be for the Government to initiate a debt moratorium. It may be that the Government's recent efforts to negotiate bilateral trade agreements, particularly with oil exporting countries, could provide support for such solutions.

Trade Policies

Expansion of exports is essential if Brazil is to continue to service its debt and reap the benefits of fuller participation in the world economy. Adequate exchange rate policy is crucial for maintaining export incentives and diminishing uncertainty for exporters. Recent exchange rate policy in Brazil, including a 30% devaluation in February and a crawling peg regime since, has been satisfactory, and you may wish to convey the Bank's support for such policies to maintain the present real exchange rate.

Looking to the longer term, changes in commercial policies are also desirable. The Brazilian economy is kept relatively closed by extensive trade restrictions. Domestic market protection, however, also discriminates against exports, and there is reason to believe that, in addition to stimulating exports, greater openness of the economy would accelerate economic growth, increase employment opportunities, and improve the distribution of income. As a part of a current industrial sector loan, designed to liberalize imports destined for export production, the Brazilian Government is organizing an economic work program, with Bank support, to study the impact of its present trade regime and lay the base for further reform. A related effort is taking place regarding agricultural policy and price incentives. You should reiterate our willingness to be supportive via our economic and sector work program, and stress that continued lending at high levels, particularly under the Special Assistance Program, will require progress in liberalizing the import system as soon as the foreign exchange situation permits.

Recent Bank Actions

A number of actions have been initiated by the Bank consistent with the Special Action Program. Policy oriented loans for the agricultural and the industrial sectors have been negotiated to support rural agricultural investment and agricultural and industrial exports. These loans have been designed to be quick-disbursing, but incorporate

longer-term policy changes which were agreed as a result of the Bank and Brazil's policy dialogue. A supplemental finance loan is in an advanced stage of preparation. In cases where it is justified, increases in the Bank's project cost-sharing ratio have been proposed. Finally, new projects which the Government considers of sufficiently high priority to proceed with, despite the severe reduction of public expenditures, also provide accelerated disbursements for the early implementation period of the projects.

OPERATIONAL ISSUES

Repayment of Bank loans, which had experienced delays, has improved. You should mention this, and note that we expect that improvement will continue. A second Project Implementation Review between the Bank and the Government was held in Washington in July to review questions related to the execution of Bank financed projects. The main purpose of the meetings was to strengthen joint efforts to accelerate project execution and, the disbursement of Bank loans. Progress was achieved in two main areas. First, in order to assure the timely availability of counterpart funds the Government agreed to take a number of measures. Second, steps to accelerate project execution through Bank advances and direct payments from Special Accounts were also agreed upon, with the Bank indicating its concurrence to establish Special Accounts for all on-going projects and new projects when justified.

BRAZIL

BIOGRAPHICAL SKETCHES OF SENIOR DELEGATION OFFICIALS

Antonio Delfim Netto (Minister of Planning and Governor of the Bank). Dr. Antonio Delfim Netto, 55, who became Minister of Planning in the Figueiredo Government in August 1979, has a graduate degree in Economics at the University of Sao Paulo, where he established himself as one of Brazil's outstanding economists. From 1964 to 1967 he served as Secretary of Finance for the State of Sao Paulo, and in March 1967, at the age of 39, he was appointed Minister of Finance, where he remained until 1974. During the Geisel Government (1974-79) he was Brazil's Ambassador to France. In March 1979 he was appointed Minister of Agriculture in the Figueiredo Government, a post he left to become Minister of Planning.

Ernane Galveas (Minister of Finance and Governor of the Fund). Dr. Ernane Galveas, 58, who became Minister of Finance in the Figueiredo Government in early 1980, has degrees in economics and law and did some graduate work in economics at Yale University. From 1963 to 1965 Dr. Galveas was the Finance Director of the Merchant Marine Commission. In 1966 he became head of the Department of Foreign Trade (CACEX) of the Bank of Brazil, and early in 1968 assumed the presidency of the Central Bank, a post he held for six years. In 1974 he became president of a new pulp and paper company, Aracruz Florestal, which he left to become President of the Central Bank in August 1979. Dr. Galveas was formerly Governor of the Bank. He was recently replaced in this position by Minister Delfim Netto.

Affonso Celso Pastore (President, Central Bank of Brazil -- Alternate Governor of the Bank and Fund). Dr. Affonso Celso Pastore, 44, has a doctoral degree in Economics from the University of Sao Paulo (USP) and has also done some post-doctoral work at the University of Chicago. He joined the USP economics faculty in 1961 and has ever since been closely identified with Minister Delfim Netto's group of economists. He is considered a Delfim protegé and loyalist. In addition to various academic and research positions, he has held several government posts, including that of Secretary of Finance of the State of Sao Paulo (1978-83). He is one of Brazil's most highly regarded professional economists and has distinguished himself with important studies on inflation, monetary policy, and trade policies.

BRAZIL: FY83-86 LENDING PROGRAM BY SECTOR

	Actual	Projected		
	FY83	FY84	FY85	FY86
<u>Industrial Development</u>				
Iron Ore Carajas	304.5			
Development Banking II	220.0			
Industrial Sector I		352.0		
Industrial Sector II			250.0	
Industrial Exports				250.0
Development Banking III			200.0	
<u>Sub-Total-Industrial Development</u>	<u>524.5</u>	<u>352.0</u>	<u>450.0</u>	<u>250.0</u>
<u>Agriculture and Rural Development</u>				
Bahia II	67.8			
Agro-Industries III	400.0			
Northeast I			80.0	
Northeast II				100.0
CODEVASF III			60.0	
Tree Crops Development-Rubber				100.0
Agricultural Credit I			250.0	
Northwest Development III		75.0		
Agriculture Sector I		303.0		
Agriculture Sector II			250.0	
Agriculture Sector III				200.0
Supplementary Loan - Agric. Projects /a		42.3		
Land Resources - Titling				50.0
<u>Sub-Total Agric. and Rural Dev.</u>	<u>467.8</u>	<u>420.3</u>	<u>640.0</u>	<u>450.0</u>
<u>Power-Energy</u>				
Eletrobras II (power distribution)		250.0		
Rural Electrification I		243.0		
Rural Electrification II				150.0
<u>Sub-Total Power-Energy</u>		<u>493.0</u>	-	<u>150.0</u>
<u>Urban Infrastructure and Development and Transportation</u>				
NE Metropolitan Development	8.9			
Water Supply & Sewerage Sector I	302.0			
III Feeder Roads	154.0			
Parana Market Towns Improvement		52.7		
Medium-Sized Cities II			150.0	
Water Supply & Sewerage Sector II				150.0
Highways VII-Rehabilitation and maint.				50.0
Secondary & Feeder Roads IV				150.0
<u>Sub-Total Transportation</u>	<u>464.9</u>	<u>52.7</u>	<u>150.0</u>	<u>350.0</u>
<u>Education and Health</u>				
Education VI-Center West & North				
Basic Education		40.0		
Education VII-Science & Tech.			100.0	
Primary Health Care - Sao Paulo		40.0		
Primary Health Care - Northeast			80.0	
<u>Sub-Total Education & Health</u>		<u>80.0</u>	<u>180.0</u>	-
T O T A L :	1,457.2	1,398.0	1,420.0	1,200.0
	=====	=====	=====	=====

/a Not counted as a project.

Brazil and the CGIAR
Briefing Note for Mr. Clausen
Annual Meeting of the Bank & Fund
September 1983

Background. Brazil is a major beneficiary of the work of several centers in the CGIAR that are researching problems of great interest and importance to agricultural development in Brazil. Centers of particular interest to Brazil and CIAT (Colombia), CIP (Peru), CIMMYT (Mexico), IITA (Nigeria) and ICRISAT (India). Brazilian scientists maintain close contact with their scientific counterparts at the centers and relations are good.

We have courted Brazil for several years, and you personally took an active part. In September 1981 Mr. Delphim Netto (Minister of Planning) made a verbal commitment to join the CGIAR and spoke of a contribution of \$1 million in 1982. Nothing materialized. Nor did Brazil make a pledge for 1983 although we were told privately that if the 1982 contribution could be "sorted out" there probably would be a contribution in 1983. In 1982 and early 1983 the issue was repeatedly raised by Bank staff during visits to Brazil, but to no avail.

Suggestions. We understand that Mr. Delphim Netto will not be at the Annual Meeting but that the Secretary of the Ministry of Planning (Mr. Jose Botafogo Goncalves) will be there. He is familiar with the issue. Should the occasion arise a word from yourself to him would be most helpful. Specifically you might suggest that a contribution of \$0.5 million for 1982 and \$0.5 million for 1983 would be appreciated. This is what the Mexicans have said they will contribute under rather similar circumstances.

OFFICE MEMORANDUM

DATE: September 9, 1983

TO: Mr. A. W. Clausen
(through Mr. Ernest Stern)

FROM: Nicolas Ardito Barletta, Regional Vice President, IAC

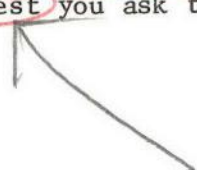
EXTENSION: 75906

SUBJECT: BRAZIL - Visit of Finance Minister Ernane Galveas*Subindex*

1. Finance Minister Ernane Galveas of Brazil will be visiting Washington this Monday, September 12, 1983. He will be meeting with the Managing Director of the International Monetary Fund, and he will be meeting with us Monday morning at 11:00 a.m. Your meeting with Minister Galveas is scheduled for Monday at 12:00 p.m. On Tuesday, he will be discussing Brazil's international financial program with the commercial banks in New York.

2. The purpose of Minister Galveas' meeting with us is to finalize the negotiations on the proposed agricultural credit and export development loan. You will recall that we initiated the negotiations for this loan of US\$302 million early last week. We have made substantial progress since then but there is one remaining item which needs to be settled, namely, the phasing out of the agricultural credit subsidies for the so-called normal agricultural credit programs in the Northeast. We expect the Minister to argue that it is at the present time not advisable for him to convoke a meeting of Brazil's National Monetary Council to seek a modification of the credit subsidy proposals already approved by the Council, which is what would be required if the Government were to accept our proposal for applying in 1986-87 monetary correction of 90% to principal repayments, as opposed to 85% as the National Monetary Council has agreed. We are quite sympathetic to that point and have suggested that the Minister agree to provide starting in 1984 for the full cost of the remaining subsidies for the Northeast in the fiscal budget. The objective of this proposal is to make certain that there is an explicit understanding of the cost of the remaining subsidies which could lead, we hope, to a decision to eventually reduce these subsidies further. Incidentally, we expect to resolve this issue in our 11:00 meeting with Minister Galveas, but we will let you know before your meeting with the Minister.

3. Meanwhile, I thought you would be interested in knowing that we have completed the negotiations for the export development loan for US\$352 million, and we have informed the Brazilians that we expect to receive Government approval no later than this coming Wednesday so as to permit presentation to the Board of the two loans on October 4. This requires very expeditious processing on the parts of both the Brazilians and us. We have, of course, also told the Brazilians that these two loans will only be presented to the Board after an understanding has been reached between the Government of Brazil and the IMF. I suggest you ask the Minister if such an understanding has indeed been reached.



4. Our understanding is that a new agreement between the Government and the Fund is imminent. While Minister Galveas will discuss some of the final details in the new agreement with the Fund on Monday, he is not expected to sign the Letter of Intent then. Some measures are still expected to be approved by the National Monetary Council on Wednesday before the Letter of Intent will be signed and the green light given on a new agreement by the Fund's management.

5. With the Fund management's approval of the new IMF program, Phase 2 of Brazil's external financing program with the commercial banks will begin. Bank estimates indicate that an additional US\$3-4 billion of new credits will be needed in 1983, despite Brazil's very favorable trade surplus performance. Such new credits will be required to clean up Brazil's growing arrears, which now are reported to be over US\$2 billion. Under Phase 2, covering the remainder of 1983 and 1984, it is estimated that US\$11.2 billion of additional resources will be required. Of this amount, a Paris Club rescheduling is expected to provide about US\$1.9 billion, and official suppliers' credits, such as through the Ex-Im Bank, are expected to generate about US\$2.0-2.5 billion. As Messrs. de Larosière and Rhodes recently told you, some US\$6-7 billion will fall to the commercial banks to provide in the form of new loans. Once the new Fund agreement is in place, progress on obtaining commitments of these funds is expected to proceed quickly.

cc: Mr. Lerdau, LC2
Brazil Division

HvdHeijden/WGTyler:nev

OFFICE MEMORANDUM

DATE: August 30, 1983

TO: Mr. A. W. Clausen
(through Mr. Shahid Husain, Acting SVPOP) *ht.*FROM: Nicolas Ardito Barletta *NB*

EXTENSION: 75901

SUBJECT: BRAZIL - Briefing Notes for Your Meeting with Mr. William Rhodes

1. Tomorrow morning at 10:30, you will meet with Mr. William Rhodes (CITIBANK). The purpose of this visit to you, we understand, is to inform you of the progress made in discussions between commercial banks and Brazil to prepare a financial package for the remainder of 1983 and 1984. Mr. Rhodes will want to be informed of the Bank's current and projected levels of assistance and resource transfer. He may also inquire as to the prospects for increased Bank assistance through 1984.

2. In early 1983, the commercial banks, in conjunction with the IMF program, agreed to (a) make new loans in the aggregate of US\$4.4 billion, (b) rollover for an additional eight years US\$4 billion of medium- and long-term loans falling due in 1983, (c) make available up to US\$9.4 billion in short-term commercial credits, and (d) restore to approximately US\$7.5 billion the bulk of deposits held by foreign banks in overseas branches of Brazilian banks. Significant shortfalls were experienced with the interbank lending component, and by July 1983 interbank credits to Brazil amounted to only about US\$5.8 billion. Because of this shortfall and other contingencies, Brazil will require an additional US\$3-4 billion for 1983. A new external financing package from the commercial banks for the remainder of 1983 and for 1984 is being prepared as part of the renegotiated agreement between the government and the IMF. A meeting of the Paris Club, to discuss the rescheduling of about US\$2.0 billion in official debt has also been requested by the government.

3. Bank lending reached US\$1,425 million in FY83. Under the presently authorized lending program, which is constrained by the objective of bringing down Brazil's share in the Bank's portfolio to 8% (from its present 8.7%), the FY84 lending would only be US\$1.1 billion. However, a proposal in the new CPP -- which will be reviewed on September 13 -- is to raise this amount to US\$1.4 billion. Annual disbursements of Bank loans reached US\$763.8 million in FY83. Net transfers to Brazil reached US\$357.6 million in FY83. Special measures have been taken to increase the flow of resources to Brazil, principally by increasing disbursements. These measures include: (a) the establishment of Special Accounts, totalling about US\$300 million, with the Central Bank of Brazil, to reduce the interval during which the government finances the Bank's share of project costs with its own resources and, (b) provision of working capital finance of US\$100 million through the recently approved agro-industries loan. Planned activities, in the context of the Special Action Program, include two policy-based loans, totalling US\$655 million, for agriculture and industry designed to be quick disbursing, and a Supplemental loan of US\$27 million for agricultural projects. These measures should result in a 23% increase in gross disbursements to Brazil for FY84.

Not yet reviewed by O.P.S.C. ht.

4. Current efforts to increase net resource transfers to Brazil include the extension of the Special Account System to most ongoing projects to speed disbursements, and semi-annual project performance reviews with the government to identify bottlenecks in project implementation.

5. Mr. Rhodes may inquire if the Bank could increase its lending to Brazil for CY1984. With follow-up loans for the agricultural credit and industrial development operations, this would be possible provided, as noted above, that the portfolio constraint -- and/or the Bank's lending program constraint -- were relaxed.

*our
constant
thinking
; that will
S.A.P. we are
going for enough.
A.S.*

IBRD Resource Transfers to Brazil /1
(US\$ million)

	<u>Disbursements</u>	<u>Amortization</u>	<u>Net Disbursements</u>	<u>Interest, Fees, Charges</u>	<u>Net Transfer</u>
FY81	377.6	111.8	265.8	185.3	80.5
CY81	387.0	137.1	244.9	184.6	65.3
FY82	471.5	179.0	292.5	192.4	100.1
CY82	623.2	208.3	414.9	197.7	217.2
FY83	763.8	214.6	549.2	191.6	357.6
CY83	800.0	290.0	510.0	239.7	270.3
FY84	936.4	326.6	609.8	290.7	319.1
CY84	1,050.0	370.0	680.0		
FY85	1,163.0	412.6	750.4	362.9	387.5

/1 Data to FY83 actual. Following years are estimated.

7 Bill
4 Bill
B. L. L. L.

August 23, 1983

Dear Paul:

With regard to our recent conversation, here are the estimates of gross and net disbursements of the World Bank to Brazil in calendar years 1983 and 1984:

	1983			1984
	Jan. - July Actual (US\$m.)	Aug. - Dec. Projected (US\$m.)	Total	Projected (US\$m.)
Gross Disbursements	484	316	800	1,050
Amortization			<u>290</u>	<u>370</u>
Net Disbursements			<u>510</u>	<u>680</u>

The gross disbursements are substantially higher than in recent years because two relatively large quick disbursing sector loans for agriculture (US\$303 million) and industry (US\$352 million) are included. These loans should go to our Executive Directors in October. We have also taken a number of actions to accelerate disbursements on existing and new loans (front-loading disbursement percentages, establishment of special accounts etc.).

Please let me know if you need any additional information.

Warm regards.

Sincerely,


(Signed) A. W. Clausen

The Honorable Paul Volcker
Chairman, Board of Governors
Federal Reserve System
Room B2046
20th & Constitution Ave. NW
Washington, D.C. 20551.

BRAZIL

Table 1: MACROECONOMIC PERFORMANCE AND PROJECTIONS - BASE RUN
(Annual Real Growth Rates - %)

	Actual	--Estimated--		Projected
	1975-80	1981	1982	1983-88
<u>GDP</u>	6.5	-3.5	1.0	5.1
Agriculture	9.5	6.8	1.0	5.3
Industry	4.6	-8.4	0.0	5.1
Services	7.8	-1.4	1.3	4.8
Consumption	7.7	-6.0	0.0	4.9
Fixed Investment	2.8	-4.1	1.0	5.1
Savings (GNS)	-1.6	0.2	-3.9	7.9
Imports (GNFS)	-1.3	10.9	-15.7	4.5
Petroleum	4.3	-4.9	-2.6	1.6
Exports (GNFS)	6.4	37.7	-1.8	6.0
Manufactures	18.2/ ^a	40.6	7.1	7.5
Marginal Savings Rate/ ^b	0.0	0.0	.98	.30

^a 1975-80 estimates include manufactured and other non-primary exports; 1981-88 estimates are only for manufactured exports.

^b Defined as change in gross national savings/change in gross national income over the relevant period.

May 3, 1983

BRAZIL

Table 2: EXTERNAL FINANCING REQUIREMENTS - BASE RUN
(US\$ Million)

	<u>Actual</u>		<u>Projected</u>					
	1981	1982 /a	1983	1984	1985	1986	1987	1988
<u>Requirements</u>								
Current Deficit	10,995	14,539	9,183	7,033	5,316	3,833	2,046	-313
Amortization	7,091	8,671	7,958	8,124	11,342	15,158	16,935	19,182
Brazilian Export Credits								
Abroad (Net)	1,237	1,086	1,207	1,395	1,589	1,820	2,083	2,429
Reserve Additions	687	-4,000	850	904	506	655	727	808
Total	20,010	20,295	19,198	17,456	18,753	21,466	21,791	22,106
<u>Sources</u>								
Direct Investment (Net)	1,585	1,100	1,500	1,553	1,630	1,720	1,814	1,914
Gross Disbursements, M< Debt	15,059	15,184	18,468	13,860	14,974	19,346	21,678	22,192
Official	1,082	1,667	2,018	2,125	2,011	1,805	1,693	1,665
Private	13,977	13,517	16,450	11,735	12,963	17,541	19,985	20,527
Other Capital	3,366	4,011	-770	2,043	2,149	400	-1,700	-2,000
TOTAL	20,010	20,295	19,198	17,456	18,753	21,466	21,792	22,106

/a Preliminary.

May 3, 1983

BRAZIL

Table 3: BALANCE OF PAYMENTS SENSITIVITY RUNS

Simulations / <u>d</u>	Current Account Deficit as % of -----GDP-----		Gross Debt Service Ratio/ <u>b</u> ------(%)-----		External M< -----Debt/ <u>c</u> US\$ Bill % GDP	
	1985	1988	1985	1988	1988	1988
1. Base Case	2	0	67	63	113.1	38
2. High Oil Price	3	2	68	68	131.8	44
3. Low Oil Price	2	(1) / <u>a</u>	66	59	102.5	34
4. High Growth of Manufactured Exports	1	(3) / <u>a</u>	63	52	95.6	32
5. Low Growth of Manufactured Exports	3	2	70	72	125.2	42
6. High LIBOR	3	1	76	75	132.5	44
7. Low LIBOR	1	(1) / <u>a</u>	59	53	96.4	32
8. "Worst Case" / <u>e</u>	5	5	80	93	165.3	55

/a Current account surplus.

/b Amortization and interest as percentage of exports of goods and non-factor services.

/c Includes undisbursed debt.

/d Underlying assumptions of simulations:

/e Combines "high oil price" (run 2), "low growth of manufactured exports" (run 4), and "high LIBOR" (run 6).

June 7, 1983

MOEEN
Munir

ROUTING SLIP

DATE June 13, 1983

FROM THE OFFICE OF THE
REGIONAL VICE PRESIDENT

NAME

ROOM NO.

Mr. A. W. Clausen (Through Mr. Stern)

APPROPRIATE DISPOSITION

NOTE AND RETURN

APPROVAL

NOTE AND SEND ON

COMMENT

PER OUR CONVERSATION

FOR ACTION

PER YOUR REQUEST

INFORMATION

PREPARE REPLY

INITIAL

RECOMMENDATION

NOTE AND FILE

SIGNATURE

REMARKS

Attached please find briefing note for your meeting with General Jose Costa Cavalcanti, on Wednesday, June 15 at 11 a.m.

Please note that para. 6 of the attached briefing note will be completed after the meeting on Tuesday, June 14, at 10:30 a.m. with ELETROBRAS' Financial Director, Mr. Yokota.

FROM

Nicolas Ardito Barletta

ROUTING SLIP

DATE

June 14, 1983

FROM THE OFFICE OF THE
REGIONAL VICE PRESIDENT

NAME

ROOM NO.

Mr. Clausen (through Mr. Stern)

APPROPRIATE DISPOSITION

NOTE AND RETURN

APPROVAL

NOTE AND SEND ON

COMMENT

PER OUR CONVERSATION

FOR ACTION

PER YOUR REQUEST

INFORMATION

PREPARE REPLY

INITIAL

RECOMMENDATION

NOTE AND FILE

SIGNATURE

REMARKS

BRAZIL: Your Meeting with Gen. Cavalcanti

Attached is a revised version of the briefing for your meeting tomorrow with General Cavalcanti.

Paragraph 6 was revised summarizing the meeting which was held this morning with Dr. Yokota of Eletrobras.

FROM

Nicolas Ardito Barletta

June 14, 1983

Briefing Note for the Meeting of Mr. Clausen with General
Jose Costa Cavalcanti, President of Eletrobras

1. On Wednesday, June 15 at 11:00 a.m., you will be meeting with General Jose Costa Cavalcanti, President of Centrais Electricas Brasileiras (ELETROBRAS). Most recently you met with General Cavalcanti during your visit to Brazil last year. General Calvacanti has had a long and distinguished career of public service and is considered to be one of 5 leading candidates for President of Brazil in 1985. Since 1974 he has also served as President of the Itaipu Binational Company, responsible for the construction and operation of the Itaipu Hydroelectric Power Dam. He is a member of the National Energy Council, and was Minister of Interior (1969-1974), Minister of Mines and Energy (1967-69); he has held elected office, representing the state of Pernambuco in the Northeast.

The Electric Power Sector

2. Though complex and one of the largest in the world, the sector is generally well organized and policies are well formulated and applied. ELETROBRAS is a holding company for the utilities owned by the Federal Government. ELETROBRAS administers public funds for use by its subsidiaries and state-owned utilities, coordinates external borrowings, expansion plans for major generating and transmission facilities, and operation of interconnected systems in the country's network. The National Department for Water and Electrical Energy (DNAEE) performs all regulatory functions, including the setting of tariff levels.

The Bank's Role in the Sector

3. The Bank has provided extensive support to the sector, with 35 loans totalling about US\$1.9 billion. They have been for hydroelectric plants, associated transmission facilities, and distribution systems in the southern, southeastern and northeastern regions. Bank participation has contributed to improved sector organization and planning, and has facilitated foreign commercial financing for the sector. The bank has shifted its strategy of support from power generation (of which there is currently a projected overcapacity) to expanding power distribution and rural electrification. Two additional projects have been appraised, but the loans totalling US\$500.0 million have been delayed until we reach agreement with the Government on major issues now confronting the sector (and a basic objective of our policy dialogue): the implementation of a tariff policy which would enable the sector to generate a sufficient portion of the funds required for sector investment, as well as the resolution of other financial problems in the sector caused by difficulties in access to external financial markets, and by the most recent maxi-devaluation.

*The reason
for shifting
is that our
role in
generation
is finished.*
A

The Power Tariff Issue

4. Since the late 1970's there has been a deteriorating trend in the financial condition of the electric power sector. In September, 1981, after long discussions on the question of power tariffs, the Bank agreed with the Government on measures to reverse this trend, and to start the sector on a slow but steady path towards improved financial performance. The agreement called for real increases in power tariffs at a minimum of 3% in 1982 and 5% per year thereafter, until the sector reaches an overall rate of return of 10% per year, a target established in Brazilian law and in many of our loan agreements with the Government. As inflation exceeded forecast levels, the agreement was not fully implemented in 1982, due to delays in making expected quarterly tariff adjustments. These delays resulted in foregone revenues of about US\$280 million, and an overall tariff increase at the end of the year of about 2.5%. We have reviewed the sector's financial situation and have taken the view that the financial capability of the sector was eroded in 1982, as shown by the following key indicators:

	1981	1982
Rate of remuneration (%)	7.9	6.3
Expenses/Revenues (%)	54.8	56.4
Average fiscal tariff (Jan. 77 Cr\$/MWh)	440.0	390.0

5. Particularly in light of conditions in the Brazilian economy and financial markets, it is now even more important that the power sector contribute to public savings by generating a greater proportion of the funds needed for the sector investment program from its own sources. It has been our opinion that this would be relatively easy to accomplish by regular but small real tariff increases, which should neither add significantly to inflationary pressures nor damage the competitive position of Brazilian industry.

6. The Government has indicated its willingness to comply with the agreement for 1983, and has prepared a new financial plan for the sector, a draft of which we received yesterday from Dr. Masato Yokota, Financial Director of ELETROBRAS. Dr. Yokota indicated that the plan assumes real tariff increases of 5% per year, consistent with our agreement. However, he also noted that the forecast for average demand growth through 1987 of 10% per annum may be somewhat high. The Minister of Mines and Energy will review the sector plan this week, and may revise these forecasts downward. If so, and depending on the level of the reduction, the impact on sector revenues would have to be reviewed. In any case, the final version of the plan, which will incorporate any of these changes, will be submitted to us in the near future. We will be reviewing the draft plan in detail over the next week or so and make our comments to ELETROBRAS. On the basis of the final plan we expect to receive, we will reach a judgment as to the further processing of the loans in our FY84 lending program.

Cleared with and cc: Mr. Moscote, LCP

NOTcheyan:gz

INTERNATIONAL MONETARY FUND
THE WORLD BANK

Boards of Governors • 1982 Annual Meetings • Toronto, Ontario, Canada

MEMORANDUM FOR THE RECORD

FROM : E. Lerdau
SUBJECT : Brazil - Meeting of Mr. Clausen with
Minister Galveas
DATE : September 4, 1982

On September 3, 1982, a meeting took place in Toronto between Mr. Clausen and Minister of Finance Ernane Galveas. Also present were Messrs. Langoni, Serrano and Kafka and Messrs. Stern, Lerdau and Humphrey.

The principal subject of the conversation was the international economic and financial situation and its impact on Brazil. Minister Galveas said that whereas previous external crises had been weathered well by Brazil (e.g. the Middle East, the Iran-Iraq war, the Polish issue) the cumulative impact of all of them had made the present situation much more difficult than any preceding one. There was no doubt that foreign bankers were nervous. Nevertheless, there were also some positive features, and he expected that this would be realized by the market. The structure of Brazil's external debt was quite favorable; the annual amortization burden was not too heavy. Interest this year would amount to some US\$10 billion, but if the average interest rate fell to 12% -- instead of the 16% which he had assumed for his planning -- a relief of some US\$2.5 billion would derive from this. Moreover, the falling real price of oil was giving additional relief. Also important was that bank regulators and Central Banks in capital exporting countries were no longer leaning on commercial banks -- as they had done until not long ago -- to restrict their foreign lending. He and Mr. Serrano asked Mr. Clausen's view on this last point.

Mr. Clausen commented that no country benefitted from sudden sharp curtailments in the supply of external funds but that of course surveillance to ensure the quality of the commercial banks' portfolio was necessary. Brazil in this respect was well placed since it was known that

Continued on page 2

responsible economic policies had been followed ("you have bitten some hard bullets"). The Bank was trying to be helpful in stimulating the flow of private capital, particularly through cofinancing and through the promotion of an international code on private investment.

Messrs. Langoni and Galveas said that there were two issues not directly touched by these remedies:
(a) the creditworthiness of the borrowing countries and
(b) the resource availability of the banks. They saw real disruption at present in the inter-bank market and hoped that this would not last. They also hoped that the resources of the IMF would be expanded sufficiently.

C.C. ✓ Mr. Clausen's Office
Mr. Stern's Office
Mr. N. A. Barletta
✓ Mr. H. Vander Heijden

BRAZIL

BRIEFING PAPER

Meeting with the Brazilian Delegation
to the 1982 Annual Meeting

TABLE OF CONTENTS

9-3-82
Mr. Leroan

KEY POINTS

BIOGRAPHICAL INFORMATION

ANNEX

I. FY83-84 Lending Program by Sector

August 18, 1982

August 18, 1982

BRAZIL

Meeting with the Brazilian Delegation to the Annual Meeting

Key Points

The Delegation will most likely wish to discuss the recent evolution of the Brazilian economy, its short-term policy objectives, and the Bank's lending program. Among the most immediate concerns are the recent decline in exports and reacceleration of inflation. Our on-going policy dialogue with the Government continues to focus on the need to reduce credit and other subsidies, to define and enforce better public sector expenditure priorities, to rationalize industrial and trade policy incentives, particularly maintaining a realistic exchange rate, and to improve longer range policy planning, with particular emphasis on employment. Although the economic team appears sympathetic, at least in direction, with these points, policy making is complicated by the forthcoming national elections (Federal Congress, State Governors, State Legislatures, Municipalities).

I recommend that you take this opportunity to express satisfaction that the Bank and the Government recently reached an agreement on the actions the Government would take to comply with its obligations under our steel loans (mainly capital contributions and price increases) and express the hope that these measures will be taken and will suffice to complete the projects satisfactorily.

GENERAL AND ECONOMIC ISSUES

Politics

The November 1982 elections will be the first major elections in Brazil since the mid-1960s. Consequently, political concerns constrain the pursuit of economic policy and stabilization objectives. Despite electoral rules intended to favor the Government party -- the Partido Democratico Social (PDS) -- the Government appears likely to lose the governorships of several key states and have its margin of control in Congress substantially reduced, as the current recession and reaccelerating inflation have already served to undermine its popular support.

Aggregate Demand Management

Substantial progress was made in macroeconomic stabilization during 1981, but at the cost of a severe industrial recession. Current indications are that demand management policies have become more expansionary in 1982, and may be contributing to an incipient reacceleration of inflation. At the same time, the recession appears to have bottomed out, and a GDP growth of perhaps 1-2% appears likely for

1982. A major factor exacerbating the trade-off between growth and inflation are the large credit subsidies, directed primarily to agriculture and export industries, which must be offset by severe restrictions on overall credit growth. The result has been extremely high real interest rates in the free segment of the financial market. M

Despite important progress in recent years to improve the central authorities' information and control over public sector expenditures, the consolidated deficit, including subsidies channeled through the monetary authorities, is estimated to have been equal to almost 8% of GDP in 1981. In addition to the above-mentioned subsidies, a major part of the management problem emanates from large on-going government investment projects and programs inherited from the past, some of which were selected without sufficient regard to economic considerations. Tighter planning is badly needed for the future. An investment program has now been prepared for the period 1982-85 and is being reviewed by a recently returned Bank economic mission.

Foreign Trade Policies

For the first time in many years, Brazil's 1981 merchandise trade account showed a substantial surplus (\$1.2 billion), and, despite a disappointing export performance in the first half of 1982 (down 8.6% in current US\$ as compared to the first half of 1981), the outlook is still for a small merchandise trade surplus for 1982. With interest rates remaining high, however, a current account deficit of about US\$ 11 billion is projected. Although Brazil has not apparently encountered difficulties so far this year in meeting its borrowing needs, the reacceleration of inflation and decline in exports may again cause concern among the international bankers.

Exchange rate policy is crucial to improving export incentives, particularly in view of the Government's commitment to GATT to reduce tax subsidies for that purpose. During the first seven months of 1982, however, exchange rate adjustments have lagged slightly (about 10%) behind domestic inflation. The Government has indicated its intention to make up for the lag during the remainder of the year. I recommend that you inquire again as to government intentions and in so doing express the Bank's concern. INQUIRE

Looking to the longer term, the Brazilian economy is kept relatively closed through the exercise of restrictive trade policies. Domestic market protection, however, also discriminates against exports, and there is reason to believe that greater openness of the economy would enhance economic growth and employment and improve the distribution of income. A Bank Report just published in grey cover, has recommended, among other things, that the Brazilian government organize an economic work program to study the impact of its present trade regime and lay the base for future reform. In pre-publication discussions this recommendation met with approval by the Government. You might take the opportunity to inquire as to the progress and future prospects of such efforts. INQUIRE

OPERATIONAL ISSUES

Loans to the Steel Sector

A major point of contention in our relations with Brazil was removed when the Bank and the Government recently agreed on a plan of action for insuring timely completion of the Bank-financed steel projects and restoring the financial viability of implementing companies. This plan calls for (i) 5% real steel price increases in the second semester of 1982, (ii) additional government transfers (including equity contributions), and (iii) additional external borrowing. We should remind the Brazilian delegation that immediate action will be required to fulfill the terms of the June agreements. In particular, the Government should: (a) accelerate disbursement of the remaining equity funds to be provided to the companies in 1982; (b) provide urgent assistance to enable the companies to raise the external long-term debt authorized for 1982 (or provide alternative sources of funds to make up for likely shortfalls in external borrowings); and (c) give its early approval to the planned 5% real steel price increase for 1982 in order to help alleviate the companies' financial difficulties and restore depressed Brazilian steel prices to levels closer to those prevailing in other countries. Our ability to support the companies in their efforts to raise additional foreign loans, and to continue disbursement on our loans for the steel sector, will depend on the Government taking early action in the above areas.

Local Matching Funds

Execution of virtually all our projects in Brazil is being hampered by delays and shortfalls in the required local matching funds. Strict public expenditures management being enforced by the Government, which the Bank supports, seems to be only a partial explanatory factor. Problems with defining priorities and burdensome bureaucratic processes also play a role. The Government and the Bank are organizing a project implementation review meeting this coming fall to discuss the situation and other project implementation problems. M

Export Promotion Loan

The Delegation may bring up the subject of a possible export promotion loan. Such a project was previously discussed in late 1980 and early 1981. The project, as then envisaged, would have involved a quick disbursing program type of loan of some \$1.5 billion, phased in three annual tranches of \$500 million each. The overall purpose of the loan would have been to promote changes in macroeconomic and trade policies conducive to export expansion. The foreign exchange was to have been used to finance imports for export production while the local counterpart funds would have been available for suppliers' credits for Brazilian export sales. The Brazilian Government hoped that (i) such a loan would constitute additional Bank lending for Brazil and (ii) the policy reform

conditions for the loan would not be very demanding. After some initial work to design a project, we made preliminary inquiries with key Part I Country Executive Directors to gauge their support. The reception tended to be negative and there is no reason to believe that it would be better now. Barring any additionality in the Bank's lending to Brazil, I think that Bank objectives can be adequately pursued with the present project approach and within the context of the current projects pipeline. Consequently, I recommend that you do not encourage any new Brazilian initiatives regarding an export promotion loan.

BIOGRAPHIES

Antonio Delfim Netto (Minister of Planning and Governor of the Bank). Dr. Antonio Delfim Netto, 54, who became Minister of Planning in the Figueiredo Government in August 1979, has a graduate degree in economics. Early in his career Dr. Delfim Netto was a professor of Economics at the University of Sao Paulo, where he established himself as one of Brazil's outstanding economists. From 1964 to 1967 he served as Secretary of Finance for the State of Sao Paulo, and in March 1967, at the age of 39, he was appointed Minister of Finance, where he remained until 1974. During the Geisel Government (1974-79) he was Brazil's Ambassador to France. In March 1979 he was appointed Minister of Agriculture in the Figueiredo Government, a post he left to become Minister of Planning.

Ernane Galvêas (Minister of Finance and Governor of the Fund). Dr. Ernane Galvêas, 57, who became Minister of Finance in the Figueiredo Government in early 1980, has degrees in economics and law and did some graduate work in economics at Yale University. From 1963 to 1965 Dr. Galvêas was the Finance Director of the Merchant Marine Commission. In 1966 he became head of the Department of Foreign Trade (CACEX) of the Banco do Brasil, and early in 1968 assumed the presidency of the Central Bank, a post he held for six years. In 1974 he became president of a new pulp and paper company, Aracruz Florestal, which he left to become President of the Central Bank in August 1979. Dr. Galvêas was formerly Governor of the Bank. He was recently replaced in this position by Minister Delfim Netto.

Carlos Geraldo Langoni (President, Central Bank of Brazil --
Alternate Governor of Bank and Fund). Dr. Carlos Geraldo Langoni, 36, who became President of the Central Bank in early 1980, and was previously a Director of the Central Bank, has a Ph.D. in Economics from the University of Chicago (1970). Since 1971 Dr. Langoni has been on the faculty at the Fundação Getulio Vargas (FGV) and from 1974-79 he served there as Director of the Graduate Program in Economics, a position which he left when appointed a Director of the Central Bank in 1979. Since 1970 Dr. Langoni has undertaken research on various aspects of the Brazilian economy, with his best known work on income distribution.

BRAZIL

FY83-84 LENDING PROGRAM BY SECTOR

	<u>FY83</u>	<u>FY84</u>	<u>Total</u>	<u>%</u>
<u>Industrial Development</u>				
Iron Ore-Carajas	304			
Development Banking II	<u>220</u>			
<u>Sub-Total - Infrastructure Development</u>	<u>524</u>		<u>524</u>	<u>25%</u>
<u>Power - Energy</u>				
Rural Electrification	200			
ELETROBRAS Distribution II	250			
<u>Sub-Total - Power-Energy</u>	<u>450</u>		<u>450</u>	<u>21%</u>
<u>Transportation</u>				
Secondary & Feeder Roads		166		
Highway VII: Rehabilitation/Maintenance		150		
<u>Sub-Total Transportation</u>		<u>316</u>	<u>316</u>	<u>15%</u>
<u>Urban Infrastructure & Development</u>				
Urban Development- Northeast Metropolitan Engineering	9			
Water Supply & Sewefage- Sector	<u>250</u>			
<u>Sub-Total Urban Infrastructure & Dev.</u>	<u>259</u>		<u>259</u>	<u>12%</u>
<u>Agriculture & Rural Development</u>				
Northwest Dev. III - New Settlements		92		
Rural Development Bahia II	35			
Forestry Development	20			
Agro Industries III	250			
Rural Development - Northeast Region		<u>80</u>		
<u>Sub-Total - Agric. of Rural Development</u>	<u>305</u>	<u>172</u>	<u>477</u>	<u>22%</u>
<u>Education & Health</u>				
Primary Health Care - São Paulo		50		
Education V - Agricultural and Technical Ed.		<u>50</u>		
<u>Sub-Total - Education & Health</u>		<u>100</u>	<u>100</u>	<u>5%</u>
<u>T O T A L</u>	<u>1538</u>	<u>588</u>	<u>2126</u>	

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

2

OPS/MC83-42

DATE: October 24, 1983

TO: The Managing Committee

FROM: Luis de Azcarate, Acting Director, CPD

EXTENSION: 60135

SUBJECT: BRAZIL CPP: OPSC Review

For MC Consideration
Mr. Clausen

Nov. 7, 1983
E-1227

The attached Brazil CPP was reviewed by the Operations Policy Sub-Committee under the chairmanship of Mr. E. Stern on September 19, 1983. The agenda for discussion and the Postscript of the review meeting are also attached.

Attachments

cc: Mr. Southworth

Credit worthy?
11-14

80% of Conil Bonds
will have committed

OFFICE MEMORANDUM

DATE September 13, 1983

TO Operations Policy Sub-Committee

FROM E. Bevan Waide, Director, CPD *VBW*

EXTENSION 60121

SUBJECT BRAZIL CPP: OPSC Review

① IMF Agreement
② Council Board agreement
 POLICIES
③ Disbursement
④ pace - re 870
Concentration

1. Attached is an agenda and comments on major policy issues identified by CPD and PAB for consideration by the Sub-Committee. The suggested agenda items are:

- (i) the immediate conditions for continued lending;
- (ii) the realism of the medium-term outlook projected in the CPP;
- (iii) the Bank's response to achieve medium-term adjustment policies;
- (iv) Brazil's creditworthiness for the proposed lending program;
- (v) portfolio considerations in determining Brazil's lending program; and
- (vi) cost sharing.

#
Implications for
credit institutions
#

2. The Review Meeting will be held on Monday, September 19, 1983 at 3:00 p.m. in Room E-1208.

Attachments

cc: Regional Office: Messrs. Lerdau
 Pfeffermann
 Jaspersen
 van der Heiden
 Agueh
 Ms. Yap

cc: Messrs. Wuttke
 Reif
 de Azcarate

Int'l Services
Grant + 670
Labor Stated
Oil + 370
+ 5/5 1/2 70
7 equal
GDP (real terms)
Debt Service 8070
1990-6070
Interest + 2707
approx / 1990 2070

★
Priorities
Industrial Incentives
substitution for jobs
Agreement on
Higher Banking reform
Public Sector
Energy
Adaptation exchange
rates tariff
reducing tariff
subsidies on
electricity

BRAZIL CPP

Topics for Discussion

Brazil's remarkable economic growth over the past decade was accompanied by growing dependence on imported petroleum and extensive borrowing. The increase in oil prices and interest rates since 1979, together with the world recession of the past three years have led to an abrupt halt to growth and a severe liquidity crisis.

Brazil's problem is not only to get over a serious short term difficulty. Given the magnitude of the external debt burden, the country must achieve a sizeable trade surplus for the next decade in order to bring the debt service ratio to a level regarded as sustainable by Brazil's creditors. The country must at the same time achieve renewed growth of economic activity, employment and consumption, in order to maintain political and social stability. This is a formidable challenge. The CPP identifies a number of important issues which this poses for Brazil and the Bank.

1. Given the unresolved liquidity crisis, under what conditions should the Bank continue to lend to Brazil?

Of the financial rescue packages assembled under IMF sponsorship to deal with debt crisis in various countries, Brazil's program has proved to be the least successful. With the suspension of disbursements under the EFF agreement and linked commercial bank loans (following the Government failure to meet the first quarterly test of the EFF agreement), Brazil's liquidity crisis has worsened seriously. External payments arrears are reported to be as high as \$2 billion excluding another \$2 billion of overdue obligations to the BIS and commercial banks for bridge loans extended last year. The Government has also suspended payments on its bilateral official debt and has requested a Paris Club rescheduling. The EFF has been renegotiated and agreed at the technical level, and is expected to be approved by the IMF Board in October. However, this is not completely certain, given growing opposition in the Brazilian Congress to critical elements of the agreement. Under these circumstances, we recommend that the OPSC review the conditions for further Bank lending, specifically as regards: (a) formal approval by the Fund of a renegotiated agreement; (b) agreement with commercial banks on new loans to cover financing requirements in 1983 and 1984; and (c) progress in the Paris Club rescheduling. These preconditions should be clearly spelled out in the CPP Postscript.

2. How realistic are the key assumptions about the medium-term outlook in the base case and alternative scenarios?

The base case scenario in the CPP is optimistic because it assumes virtually stable oil prices in nominal terms and low growth of imports relative to GNP even though assumptions about real export growth and the real interest rate seem reasonable. In more recent projections prepared for the debt study, the assumption about oil prices conforms to the Bank-wide

projection of a 3 percent real growth after 1984, and the assumption about import growth has been increased (a rate of 6.7% instead of 4.5%). However, the overall export growth rate for 1983-88 has been raised from 6.0 percent in the CPP to 8.2% in the debt study projection, assuming faster growth of manufactured exports (from 7.5% to 11.2%). This also seems optimistic as a substantial share of Brazil's manufacturing exports in 1982 was to other developing countries, such as Argentina and Nigeria, which are likely to grow relatively slowly over the next five years. Since it is unlikely that greater capital inflows can be obtained than those projected in the CPP base case, GNP growth is likely to be lower than 5% even with a healthy recovery of OECD countries, unless Brazil makes early and substantial progress in its program of structural adjustment.

3. How can the Bank condition its response to Brazil's immediate crisis to achieve progress in medium-term adjustment policies?

Assuming that the conditions agreed under para. 1 above are met, there is a strong case for accepting the CPP proposal (para. 34) that the Bank assist Brazil in FY84 and FY85 with quick disbursing loans that are linked to further key policy changes and also minimize claims on public sector resources. The proposal is to provide such resources primarily through sector loans, but also through working capital facilities, special accounts, and increased cost sharing. We agree with the Region that such action should be conditional on substantial progress in policy reform on the part of Brazil.

The CPP stresses that the Bank's medium-term response to Brazil's adjustment efforts should involve a greater focus on macro and sector policy conditionality than in the past. Achieving adequate progress in the key policy areas outlined in paras. 44-46 would indeed amount to a comprehensive structural adjustment program. Yet without full-scale structural adjustment lending it may be difficult to hold the focus of our policy dialogue steadily on these key issues. If structural adjustment lending is regarded as impracticable, it should nevertheless be made clear to Government that both the size of the total lending program and the share of quick disbursing loans will be contingent to an important degree on Brazil's progress on these issues. It would, for example, be desirable that Brazil prepare for the Bank a letter of development policies of the type used in structural adjustment loans, which could provide the basis for periodic monitoring, say once or twice a year, in conjunction with discussions of the size and scope of the overall lending program.

4. Is Brazil creditworthy for the proposed lending program of \$6857 for 1983-87 and \$6500 million for FY84-88?

The proposed lending program for FY83-87 represents a significant increase over the \$6013 million approved at the Bankwide lending review of December 1982. It also includes \$1 billion of quick-disbursing special assistance in FY83-84 and would raise Brazil's share in the IBRD loan portfolio (disbursed and outstanding) from 8.8% at end-FY83 to around 10%-11% over the next several years. Major downside risks to the base case CPP scenario include:

- (a) The Government's capability to implement the renegotiated IMF agreement in light of the considerable political opposition to

the austerity measures implied. Disagreement within the Government's economic team about the realism of these targets, especially the reduction in inflation from about 160% this year to 55% in 1984 and the elimination of the public sector deficit by 1984, has resulted in the recent resignation of the central bank governor, adding weight to the growing domestic opposition to the IMF program.

- (b) Uncertain prospects for the necessary structural and policy reforms needed to improve Brazil's long-term creditworthiness. Some significant measures are to be undertaken in the context of the Bank's industrial and agricultural sector loans proposed for FY84 (paras. 55 and 72), but much more needs to be done to rationalize Brazil's trade regime, develop a competitive export sector, and improve agricultural production. A comprehensive, time-phased program for achieving these goals has yet to be formulated and agreed with the Government.
- (c) Uncertainties about the timing and strength of international economic recovery, especially the future course of key exogenous variables such as interest rates and oil and other commodity prices.

In view of the above, PAB suggest tranching of the proposed program, recommending approval of the FY84-85 program only (\$2880 million, including \$692 million in special assistance), subject to the conditions agreed at para. 1 above, and a notional lending plan for FY86-88 to be determined at the upcoming lending program review (see para. 5 below). CPD further recommends that any overall increase in the lending program beyond the currently approved \$6013 million should be strongly conditional on progress with stabilization and adjustment policies.

We recommend that Brazil's lending program be reviewed again - in a CPP - in about 12-18 months in light of the Government's performance under the IMF agreement and the progress made by the Government not only under the agricultural and industrial sector loans scheduled for FY84, but also in developing a comprehensive structural adjustment program covering inter alia trade, energy, domestic resource mobilization policies and investment programming. To provide a basis for assessing progress made by Government toward these important goals, we suggest that the Region develop for inclusion in the CPP Postscript a specific, prioritized agenda of issues that it proposes to take up in its policy dialogue with the Government.

5. Is the proposed lending program for Brazil consistent with the Bank's portfolio diversification objective?

Apart from creditworthiness considerations, a further constraint on the five-year lending level to Brazil is the need to avoid excessive concentration on the Bank's loan portfolio by limiting the aggregate share of the four largest borrowers (Brazil, India, China, and Indonesia) to about a third of the Bank's portfolio by the early 1990s. The significant increase over the medium term in Brazil's portfolio share noted above would have to be viewed in relation to the projected portfolio shares implied by the lending proposals for the other three major borrowers. As this assessment can be done only in

the context of a concurrent review of regional lending proposals, we would suggest that consideration of this issues and its implications for Brazil's lending program in the outer years be deferred to the forthcoming Bankwide allocations review.

6. Is the proposed increase over the next two years in the project cost sharing ratio from 35% acceptable (para. 39)?

Pending the update which the Region plans to make before the OPSC Review, the question arises whether Brazil's performance to date warrants this exceptional, albeit temporary, treatment.

This CPP should be reviewed by the Managing Committee under the recently formulated guidelines for the review of CPPs by the Managing Committee.

Annex I compares the IBRD lending program proposed in the CPP with previously approved programs.

Annex II presents comparison of various country performance indicators.

Attachments

BRAZIL

Annex 1

	<u>Actual</u>	<u>Current</u>	<u>Programs</u>					<u>Five-Year Totals</u>		
	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY82-86</u>	<u>FY83-87</u>	<u>FY84-88</u>
<u>Operations Program (No.)</u>										
Approved, July 1981	9	12	10	14	14	..	..	59	..	..
Std. Table IVa, Jan. 1983	8	11	10	10	5	5	..	44	41	..
Proposed, August 1983	8	7	8	10	10	7	8	43	42	43
<u>Lending Program (No.)</u>										
Approved, July 1981	7	9	10	10	10	..	..	46	..	..
Std. Table IVa, Jan. 1983	8	10	7	9	6	9	..	40	41	..
Proposed, August 1983	8	7	8	10	10	7	8	43	42	43
<u>Lending Program (Cur. \$m)</u>										
Approved, July 1981	800.0	850.0	1450.0	1500.0	1600.0	..	..	6200.0	..	..
Std. Table IVa, Jan. 1983	722.1	1671.9	951.0	1080.0	920.0	1390.0	..	5345.0	6012.9	..
Proposed, August 1983	722.1	1457.5	1400.0	1480.0	1450.0	1070.0	1100.0	6509.6	6857.5	6500.0
<u>Lending Program (Const. FY83 \$m)</u>										
Approved, July 1981	854.7	850.0	1357.7	1322.8	1331.1	..	..	5716.3	..	..
Std. Table IVa, Jan. 1983	771.5	1671.9	890.5	952.4	765.4	1091.1	..	5051.7	5371.3	..
Proposed, August 1983	771.5	1457.5	1310.9	1305.1	1206.3	839.9	814.2	6051.3	6119.7	5476.4
Commitment Deflator (FY83 = 100)	93.6	100.0	106.8	113.4	120.2	127.4	135.1			

Note: December 1982 Review Group Decisions - FY83-84: IBRD \$2623 million
 FY85-87: IBRD \$3390 million.

PAB/CP
 9/12/83

COMPARATIVE COUNTRY ANALYSIS

Brazil's real export growth rate, although lower than Mexico's and Korea's, is above the 7.0 percent average for upper middle-income countries. The debt-service ratio, on the other hand, is higher than that of any other upper middle-income country. Population growth is about average, but school enrollment is relatively low.

	<u>BRAZIL</u>	<u>MEXICO</u>	<u>PORTUGAL</u>	<u>KOREA</u>				
<u>Economic Structure</u>								
Population 1981 (millions)	120.5	71.2	9.8	38.9				
GNP Per Capita 1982 \$US	2310.0	2250.0	2490.0	1760.0				
% Agriculture in GDP 1981	11.0	8.0	12.0	17.0				
% Industry in GDP 1981	29.0	37.0	44.0	39.0				
% Services in GDP 1981	45.0	55.0	44.0	44.0				
Debt Service Ratio 1981	31.9	28.2	13.5	13.0				
<u>Economic Performance</u>								
Real GDP Growth Rate, 1970-81	7.3	6.5	4.4	8.4				
Real Export Growth Rate, 1970-81	8.7	15.3	n.a.	23.5				
Gross Fixed Capital Formation/GDP, 1981	19.2	25.7	20.9 a/	27.5				
Exports Goods & NFS/GDP, 1981	8.6	11.9	19.5	39.9				
Current Account Balance/GDP, 1981	-4.1	-5.9	-12.2	-7.3				
Gross Domestic Savings/GDP, 1981	16.9	23.0	8.0	n.a.				
Government Revenue/GDP, 1981	8.1	15.8 b/	n.a.	19.6				
<u>Recent Social Indicators</u>								
Population Growth Rate	3.1	3.0	0.8 c/	1.7				
% Change in Crude Birth Rate (1960-80)	-29.0	-21.0	-33.0	-44.0				
% Change in Crude Death Rate (1960-80)	-36.0	-43.0	-8.0	-49.0				
Infant Mortality Rate (per 1,000)	75.4	54.4	26.0	33.1				
Life Expectancy	63.6	65.6	72.1	66.1				
Adjusted Education Enrollment Ratios								
- Primary	93.0	120.0	118.0	107.0				
- Secondary	32.0	37.0	55.0	85.0				
Adult Literacy Rate	76.0	82.7	78.0	93.0				
<u>Lending Program</u>								
	<u>FY78-82</u>	<u>FY83-87</u>	<u>FY78-82</u>	<u>FY83-87</u>	<u>FY78-82</u>	<u>FY83-87</u>	<u>FY78-82</u>	<u>FY83-87</u>
Lending Programs in Current \$USM	3640.0	6857.0	3060.0	3067.0	609.0	908.0	2240.0	3200.0
p.c.p.a. Lending \$US	6.0	11.3	8.5	8.5	12.3	18.3	11.5	16.5
p.c.p.a. Grant Equivalent \$US	1.4	2.5	1.9	1.9	2.8	4.1	2.6	3.7
p.c.p.a. in Constant 1982 \$US	6.8	9.6	9.5	7.1	14.1	15.2	13.1	13.8

a/ 1980

b/ 1980

c/ Due to emigration, population growth rate is lower than rate of natural increase.

Sources: Economic Structure - IFS, WDR, World Debt Tables and Brazil CPP, all 1983

Economic Performance - IFS, WDR and Brazil CPP, all 1983

Recent Social Indicators - Social Indicators Data Sheets, May 1983

Lending Program - Bank Tables and Brazil CPP.

Bank Assistance Policy Group
Country Policy Department
September 13, 1983

DECLASSIFIED

APR 07 2011

Confidential

WBG ARCHIVES

Country Program Paper

BRAZIL

Postscript

51. The Country Program Paper for Brazil, dated August 24, 1983, was reviewed at a meeting chaired by Mr. Stern on September 19, 1983.

52. The discussions centered around a number of related issues. First, it was suggested more detail would be needed on the additional policy reforms expected from Brazil as a condition of continued Bank lending on the proposed scale. Second, it was stated that the Government would need to be made fully aware of the linkage between successful and measurable progress in these medium-term adjustment policies and the proposed increased Bank assistance. Third, questions were raised regarding the underlying assumptions for the CPP's base case macroeconomic projections and creditworthiness analyses. Finally, the Region was asked what alternative lending scenarios would be considered should the economic situation worsen appreciably.

53. The Region's replies stressed the far-reaching policy measures already introduced by the Government, including those agreed with the Bank as part of the recently negotiated agricultural and industrial sector lending operations. That these measures were taken within a recessionary environment, and at a difficult time politically, attests to Government's willingness to act.

54. The Region also indicated that there is a broad understanding between the Government and the Bank on the direction of further sectoral and macroeconomic medium-term adjustment policies. Detailed policy measures to be introduced in the agricultural and industrial sectors are being defined through agreed work programs. The agenda for this work includes: (a) for the agricultural sector, work on pricing policies, marketing, and rural credit mechanisms; and (b) for the industrial sector, work on the overall incentive system, export promotion policies, the export financing systems, and the promotion of technological progress. The Brazil Division's economic work program also will include concentrated efforts to help improve the basis for medium-term planning in Brazil, including modeling work, improvements of planning procedures, and work on ways to improve resource allocation. Work is also planned on employment and poverty questions. The Region stressed that the specific understandings to be sought from the Government on its medium-term adjustment policies would be based on the results of the above-mentioned economic and sectoral analyses as well as on the results of the next economic report, which are expected to be available only in April/May of next year.

55. Regarding the assumptions underlying the CPP's base case and creditworthiness analyses, the Region explained that more recent balance-of-payments projections carried out as part of the Brazilian debt study, using higher oil prices and higher imports, have confirmed the validity of the CPP's macroeconomic projections and outlook for progress in the medium term.

56. Regarding the suggestion that alternative lending scenarios be considered, the Region indicated that the proposed lending program is in a way a self-adjusting one, since a number of recommended policy-based operations would drop out should the expected progress in underlying policy changes fail to materialize. Further discussions on alternative lending scenarios will be included in the strategy note to be prepared for review by May 1984 [see para. 57(i)].

57. The following decisions were taken:

(i) An interim two-year lending program for FY84 and FY85 of \$2.9 billion was approved. However, prior to proceeding with distribution of the remaining FY84 loan packages to the Executive Directors, evidence of substantial completion of the agreements between Brazil and the IMF, the commercial banks and the Paris Club must be obtained. Also, the Region should prepare for review by May 1984, prior to a firm commitment on the FY85 lending program, a strategy note that would assess Brazil's policy performance and specify policy reforms that would be expected to be implemented by the Government as a condition of continued Bank lending on the proposed scale.

(ii) The level of lending beyond FY85 will depend in part on a further assessment of its implications for the Bank's portfolio diversification objective.

(iii) The proposed across-the-board increase in cost-sharing ratio from 35% to 50% during the next two years will be further considered on the occasion of the review of the strategy note referred to above. In the meantime, the Region could apply the 50% cost-sharing ratio for projects in the poverty-oriented sectors (agriculture, health, education, urban).

CONFIDENTIAL
DECLASSIFIED

APR 07 2011

WBG ARCHIVES

Country Program Paper

B R A Z I L

August 24, 1983

Latin America and Caribbean Regional Office

Distribution

Operations Policy Sub-Committee
Senior Vice President, Operations
Regional Vice Presidents
Vice President, Operations Policy Staff
Vice President, Energy and Industry Staff
Assistant General Counsel, Operations
Director, Economic Analysis and
Projections Department, ERS
Director, Programming and Budgeting
Department

For Information

Senior Vice President, Finance
Vice President, Finance and Planning, IFC
Directors, Operations Policy Staff
Directors, Energy and Industry Staff
Director, IFC Investment Department
concerned
IMF, Area Department concerned

Other Attendance

Executive Vice President, IFC
Vice President, Co-Financing
Director, Country Policy Department
Chief, Country Assistance Division, CPD
Chief, Country Program Review
Division, PAB

A Country Program Paper has a restricted distribution and may be used by recipients only in the performance of their official duties. Neither the reproduction of copies of this document nor distribution outside The World Bank is permitted. When the paper is no longer needed it should be sent to the appropriate Country Programs Division for disposal.

DECLASSIFIED

APR 07 2011

WBG ARCHIVES

CONFIDENTIAL
REVIEW DRAFT

August 24, 1983

COUNTRY PROGRAM PAPER
BRAZIL

		<u>FY78-82</u>	<u>FY83-87</u>	<u>FY84-88</u>
1981 Population: 120.5 million	<u>/a</u>			
1981 Per Capita GNP:	IBRD(TW)	3,640	6,013	6,500 <u>/b</u>
	IDA	-	-	-
Current Population	Total	<u>3,640</u>	<u>6,013</u>	<u>6,500</u>
growth rate: 1.8% p.a.	<u>/a</u>			
	No. of Loans/Credits	41	41	43
	No. of Loans/Credits per million pop.	.34	.34	.36

Current Exchange Rate (July 25, 1983):
CR\$584.72 = US\$1.00

Average Lending Per Capita Per Annum: Current \$ (Const. FY83 Commitment \$)

IBRD/IDA	6.0(7.1)	10.0(8.9)	10.8(9.1)
IDA			

/a World Bank Atlas, 1982 (forthcoming).

/b The FY83-87 lending program proposed in this CPP compares with the program for the same period approved at the last Bankwide lending program review December 1982 as follows:

	<u>FY83-87 Lending Program</u>		<u>Percentage Change</u>
	<u>Approved</u>	<u>Proposed</u>	<u>Proposed/Approved</u>
No. of Loans/Credits	41	42	+2.4%
Current US\$ million	6,013.0	6,857.5	+14.0%
Constant FY83 Commitment \$	5,371.1	6,119.7	+13.9%
Per Capita per annum (Constant FY83 Commitment \$)	8.9	10.2	+14.6%

A. INTRODUCTION

1. The most recent Country Program Paper on Brazil was reviewed by management on June 5, 1981. The latest economic report, entitled "Economic Memorandum on Brazil" (Report No. 3275a-BR, dated May 29, 1981), was distributed to the Executive Directors on June 26, 1981. Missions to prepare a new country economic memorandum were in Brazil in May-June 1982 and in January 1983. The report of these missions became available in May 1983. The discussions of Brazil's economic situation contained in the text, as well as the macroeconomic projections shown in the attachments, are based on the findings of these missions.

B. POLITICAL AND SOCIOECONOMIC BACKGROUND

Political Situation

2. On November 15, 1982, elections were held in Brazil for all executive and legislative offices at the state and municipal levels, as well as for the seats in both houses of the federal legislature. Presidential succession, which will be determined by the vote of an electoral college comprised of the federal senators and deputies, and representatives of state assemblies chosen by the majority party, is scheduled to take place in March 1985 at the end of President Joao Figueiredo's six-year term. The November elections were a major step toward the restoration of full civilian democratic government, ended in 1964 when the military took power. Planning for the elections began with the Geisel administration in the latter half of the 1970s, but their eventual fruition owes much to the continued personal support of Figueiredo.

3. The election results were, on balance, favorable to the Government Social Democratic Party (PDS). The PDS emerged with 12 of the 22 state governorships up for election, while the opposition Brazilian Democratic Party (PMDB) and Workers Democratic Party (PDT) won nine and one, respectively. It is important to note, however, that the opposition parties managed to gain political control over almost all of the states outside of the Northeast, including the important industrial states of Sao Paulo, Rio de Janeiro and Minas Gerais. Overall, the states won by the PMDB or PDT account for about 60% of Brazil's total land area and population, and 75% of its gross domestic product. In the congressional elections, the PDS maintained its majority in the Senate by winning 46 of 69 seats. The Government party obtained a plurality in the Chamber of Deputies (234 of 479 seats), but lost its majority. Significantly, the PDS won a majority in the electoral college which will enable it, barring changes in the electoral laws, to select the next President.

4. The practical effects of the November elections on the governance of Brazil are still unfolding. The prestige of President Figueiredo was certainly enhanced, and this helped to facilitate political acceptance of

the recent IMF agreement (see paras. 22-26). But the maintenance of national unity behind the austerity program now being implemented will constitute a difficult challenge to the Government during the coming year. In order to achieve this objective, the Figueiredo administration will need to develop a working relationship with leaders of the opposition political parties on the one hand, and to act as a buffer between these politicians and "hard line" military elements on the other. These will be delicate tasks requiring strong diplomatic skills. In early March 1983, President Figueiredo made a major speech calling for a broad inter-party dialogue on national economic issues. This theme was generally well received, and was echoed in the inaugural addresses of most of the new governors. However, should domestic economic conditions worsen appreciably, thus eroding confidence in the present policy-making team, there is a real risk of growing political polarization and a consequent faltering of stabilization efforts.

Demographic Trends and Poverty Alleviation

5. The preliminary results of the 1980 Census suggest that important demographic changes and substantial progress in poverty alleviation occurred during the 1970s. The decline in the annual population growth rate from 2.9% in 1960-70 to 2.5% in 1970-80 was greater than most Brazilian and foreign observers had expected. Further research on the causes of this decline is still required, but it is likely that a more educated population, lower infant mortality, rapid urbanization, increased feminine labor force participation and wider use of contraceptives were all contributing factors. Government policy was probably only a minor factor, although some progress was made in the provision of contraception services in public hospitals. Another notable trend was the massive movement of population from the countryside to the cities, and from the Northeast to the Southeast and Amazon Regions. Reflecting this shift, the rural population fell in absolute terms for the first time during an intercensal period, while the number of Brazilians living in the major metropolitan areas rose from one-fourth to one-third of the national total. The demographic growth of the Amazon Region was about twice that of Brazil as a whole.

6. Both income and consumption indicators point to significant progress in the reduction of poverty during the 1970s. Real gains may be observed across the country, along with some modest reductions in the considerable regional disparities, and generally lessened urban-rural differences. In contrast to the experience of the 1960s, when disproportionate gains for the upper income population were quite evident, all decile groups broadly participated in the 100% real increase in average incomes estimated for the 1970s. Moreover, the average income per member of the economically-active population rose somewhat more rapidly in the low-income Northeast than in the higher-income Southeast. These broadly-distributed increases in average incomes were accompanied by gains in educational attainment, access to basic services and ownership of consumer durables. The literacy rate, for example, rose from 59% to 69% between 1970 and 1980; the primary school enrollment rate went from 80% to 90% during the same period. Access to safe water and sewerage facilities,

a factor closely related to health conditions, also improved. The proportion of households with piped water increased from 33% to 53% in the 1970s, and those connected to a sewerage network, or with a septic tank, increased from 27% to 46%. Finally, by 1980, 50% of all households possessed a refrigerator (vs. 13% in 1970), 55% a television (vs. 15% in 1970) and 22% an automobile (vs. 10% in 1970), thus attesting to the rising popular consumption of durable consumer goods.

7. The progress toward poverty alleviation observed during the 1970s is encouraging, but much still needs to be achieved. Although the size distribution of income probably did not worsen to any great degree during the 1970s, neither did it improve. At the end of the decade, as in 1970, the lowest 40% of the distribution still received less than 10% of total income. Also, wide inter- and intraregional socioeconomic disparities persist. The rural Northeast, in particular, continues to lag far behind the rest of Brazil with a per capita income only about 28% of the national average. Most other socioeconomic indicators for this subregion also fall considerably below Brazilian standards.

Macroeconomic Situation

8. Policies and Performance: 1970-80. The origins of Brazil's present economic difficulties may be largely traced to the major transformations in the world economy which occurred during the past decade, and the policies adopted to react to these transformations. Being a major oil importer, Brazil was especially hard hit by the first petroleum price shock of 1973-74. But despite the terms-of-trade loss occasioned by this shock, Brazilian economic policy-makers tried to maintain a high rate of growth. To manage the balance-of-payments strains implied by this decision, four principal measures were employed: expanded foreign borrowing, a dramatic increase in both import restrictions and export subsidies, and a renewed effort to substitute domestic production for imported manufactures, particularly in intermediate and capital goods industries. Economic growth was successfully sustained in this manner through the rest of the decade, but, in the meantime, because of mounting debt, the economy was becoming increasingly vulnerable to possible future shocks.

9. The second oil shock came in 1979, increasing the average petroleum price paid by Brazil by 140% between 1978 and 1980. This raised the oil import bill from US\$4.2 billion to US\$9.9 billion, despite a slight reduction in the volume of petroleum imported. Compounding these difficulties were the sharply higher international interest rates applying to much of Brazil's foreign debt, the LIBOR dollar rate increasing from an average of 9.4% in 1978 to a peak in March 1980 of 19.5%. The combined increase of petroleum prices and international interest rates imposed upon Brazil an external shock in 1979 of the same order of magnitude as the 1973-74 oil increase.

10. The latitude for policy response in 1979, however, was much more circumscribed than in 1973-74. The foreign debt had already grown from US\$9.5 billion at end-1972 to US\$46.4 billion at end-1978, and the associated service burden was much higher. Moreover, imports by early 1979

had been severely compressed, suggesting that further restrictions would imply high costs for domestic growth. At the same time, inflation was accelerating in response to a combination of continued high demand, the monetary impact of the rapid reserve build-up in 1977 and 1978, and two successive poor agricultural harvests, and widespread inflationary subsidies.

11. Although steps were set in motion to improve the central economic authorities' control over the public sector budget, the consolidated deficit grew from 5.3% of GDP in 1978 to a conservatively estimated 8.1% in 1979. Reflecting this highly expansionary fiscal policy, the rate of inflation (comparing 12-month cumulative averages) accelerated from 45% to 77% between June and December 1979. Economic policies adopted in the second half of 1979 sought to combat these growing inflationary pressures through the expansion of output, particularly agricultural production. In order to improve farm incentives, official subsidized credit to agriculture was expanded, the minimum price support program was revamped and price controls generally were relaxed, allowing a period of "corrective inflation". Utilizing subsidized credit to increase agricultural production, however, has subsequently proven to be a major error in economic policy-making.

12. By late 1979, it was clear that some further corrective measures were necessary. The merchandise trade account of the balance of payments was registering a US\$2.8 billion deficit (almost three times the deficit of 1978) and reserves were being drawn down. At this time, however, about the only option still open was to adjust the exchange rate which, despite the crawling peg policy followed since 1968, had become overvalued. Therefore, in December 1979, in addition to a number of other economic measures, the Government announced a 30% devaluation of the cruzeiro.

13. The beginning of 1980 was marked by optimism on the part of the Brazilian authorities that the measures taken at the end of 1979 would serve to restrain inflation to around 45% for the year, while avoiding serious balance-of-payments problems. Thus, in January 1980, the Government announced the pre-fixing for the year of the cumulative rates of both the inflation adjustment index ("correcao monetaria") and the nominal exchange rate adjustment at 45% and 40%, respectively. The intention was to promote borrowing abroad, to provide incentives for investment through relatively low interest rates, and to reverse inflationary expectations. Consistent with the projected inflation of 45%, a target of 50% was set for monetary expansion. In addition, quantitative credit ceilings were imposed on the commercial banks limiting credit expansion to 50% of their outstanding loans at the end of 1979.

14. These policies reflected major errors in judgment by and substantial weakness in Brazil's economic policy team. The Government's own contribution to demand, as reflected by the large consolidated public sector deficit, frustrated the aims of the pre-fixation policy. Inflationary pressures did not diminish and, owing to the limitation on "correcao monetaria", the expected returns on financial assets became negative in real terms. Among other things, this resulted in substantial speculative inventory accumulation, increased sales of consumer durables, a rapid appreciation of real estate values, new construction activity, and expanded industrial output. Pre-fixation of the rate of cruzeiro

devaluation also negatively affected the balance of payments. With the rate of domestic inflation for the year (110%) far exceeding adjustments in the nominal exchange rate (54%), the trade-weighted purchasing power parity of the cruzeiro rose by 21% in real terms. The result was a trade deficit which again reached US\$2.8 billion, while the sharp increase in interest payments abroad pushed the current account deficit to US\$12.4 billion. International reserves were drawn down by more than US\$3 billion for the second consecutive year, falling to less than four months import coverage. Fortunately, the policies which precipitated these results were modified by the end of 1980.

15. The Recession of 1981-82. Starting in late 1980, the real monetary base and money supply decreased sharply, as lending ceilings imposed on the commercial banks were made more effective, and interest rates were freed in the unadministered portion of the highly segmented credit market. These rates, covering most industrial working capital operations, increased dramatically, and quickly reached levels of 40-45% in real terms. In response, firms sharply cut production to reduce their increasingly expensive inventories. With consumer credit prohibitively expensive, and with real positive returns available on low-risk financial assets, consumers sharply reduced their demand for consumer durables.

16. One consequence of the Government's more restrictive policies was a 1.9% decline in the GDP during 1981, the first such decline since the initiation of national accounting in Brazil in 1947. This recession was heavily concentrated in the industrial sector, which registered a fall in output of 5.4%. Particularly hard hit was the automobile industry and those industries (e.g., steel, rubber and plastics) producing intermediate inputs for automobiles. Reflecting the declines in output, industrial employment fell by 12.1% between December 1980 and December 1981.

17. The stabilization policies announced in November 1980 had two other, more salutary, effects. First, there was a marked improvement in Brazil's balance of payments. The trade balance became positive in 1981 for the first time since 1977 (registering a US\$ 1.2 billion surplus), and the current account deficit fell from US\$12.4 billion to US\$11.0 billion. Though this encouraging performance was accompanied by the reintroduction of the fiscal subsidy for manufactured exports and even further increased import restrictions, the strengthening of Brazil's balance-of-payments position reassured the international banking community and facilitated continued access to external financing. Second, the acceleration of inflation was halted. General price increases, after reaching a peak of 121% in March 1981, closed the year with a January-to-December rate of 95.2%. Like the improvement in the external accounts, this turnaround in the inflation rate helped to reestablish international confidence in the economy.

18. As 1982 began, Brazilian policy-makers were confidently predicting for the coming year a US\$3 billion surplus in the trade balance, continued progress in the fight against inflation, recovery from the recession and little trouble in meeting their gross foreign borrowing target of US\$17 billion. Indeed, there seemed much to be confident about. Brazil had already made significant adjustments to an era of scarcer energy

resources through efforts at conservation and innovative programs to substitute domestic energy sources for imported petroleum. The country had also prudently regulated the maturities of both private and public foreign borrowing so as to achieve a sound debt structure. Moreover, by December 1981 LIBOR had fallen by almost four percentage points from its August 1981 level, promising to save Brazil billions of dollars in foreign interest payments. Finally, owing to the progress achieved in 1981 with respect to both the external accounts and domestic economy, Brazil apparently enjoyed the confidence of the international financial community.

19. During the first half of 1982, the initial optimism of the policy-makers began to fade. For the first time in 20 years, Brazil experienced an export decline in both real and nominal terms -- total exports for the first six months of 1982 were 10% below those for the comparable period in 1981. Primary products fell the most (12%), but even manufactured exports, which by now account for about half of Brazil's total exports, witnessed declines (5%). The latter suffered most dramatically with the loss of, or problems in, key markets such as Nigeria, Mexico, Argentina, Chile and Venezuela. The greatest problem, however, was encountered with exports of primary commodities. Owing to a weakening world economy, the prices of most major export commodities (e.g., soybeans, sugar, coffee, cocoa) were falling, in some cases substantially. Though Brazil's imports were also declining, the initial projection of a US\$3 billion trade surplus was revised downward to between US\$0 and US\$1 billion.

20. Despite some indications that the recession had bottomed out, there were also some disquieting signs in the domestic economy by mid-1982. The decline in inflation rates observed since March 1981 had begun to slow, reflecting a reacceleration of monetary expansion beginning in October-November 1981 and continuing through mid-1982. The monthly inflation rate reached 8% in June 1982 and the 12-month cumulative rates began to edge upward toward the 100% level. It then became apparent that the inflation rate for the year would show no improvement, and possibly some deterioration, in relation to the 95.2% rate reached in 1981. Prospects for a rapid recovery from the recession had also diminished and little or no economic growth was in prospect for the year.

21. Had the international financial community maintained its willingness to meet Brazil's borrowing needs, the problems presented by the growing external and internal disequilibria probably could have been surmounted without a major disruption. However, in the weeks following the Mexican liquidity crisis of August 1982, the flow of foreign capital came to a virtual halt with the small- and medium-sized banks, in particular, unwilling even to roll over existing loans as they came due. To meet these maturing obligations, Brazil was forced to draw deeply into its reserves and to increase its short-term borrowing. Subsequent to the Bank-Fund Annual Meetings in September, the major money market banks cautiously resumed lending, but the smaller banks, who had come to play a significant role in major-bank led consortium lending, did not return to the market, creating a substantial shortfall from earlier expectations of foreign resource availabilities.

22. The 1983 Austerity Program and the IMF Agreement. With its international reserves virtually depleted and with the availability of external resources reduced, it became obvious that Brazil would need to implement a strong policy package aimed at improving its creditworthiness. Aside from some new import restrictions and an acceleration of the crawling peg, however, no such package was immediately forthcoming. To a great extent, this delay in imposing austerity measures, as well as recourse to an IMF Extended Fund Facility, reflected the Government's reluctance to jeopardize its chances in the national elections scheduled for November 1982. But the deepening liquidity crisis soon overcame this reluctance and in late October the National Monetary Council approved a tough new austerity program for 1983. This action paved the way for a series of "bridge loans" from major foreign commercial banks, the U.S. Treasury, and the Bank for International Settlements and, once the elections were over, for negotiations for an Extended Fund Facility from the IMF.

23. The Government's 1983 austerity program, which will receive assistance from the IMF on the order of US\$5.4 billion (including both the EFF and CFF) over the 1983-85 period, is primarily geared to reducing the further growth of the external debt. The principal objective for 1983 is to show at least a US\$6 billion merchandise trade surplus, thus permitting a reduction in the current account deficit to US\$7 billion (versus US\$14.5 billion in 1982). This target is consistent with a 7.5% increase in Brazil's external debt held by foreign banks, as opposed to the 20% p.a. increase witnessed since 1978. In order to make this objective viable, some important changes in fiscal, monetary, exchange rate and wage policies are being implemented.

24. A key feature of the Government's program is the intention to reduce the public sector deficit, according to Bank estimates, from 10.5% of GDP in 1982 to 7.0% in 1983. ^{1/} This is being accomplished both through improvements in revenues and cuts in public expenditures. On the revenue side, income tax collections are being raised by indexing tax liabilities for inflation, and by reducing the period in which tax liabilities must be paid. In addition, the prices and tariffs charged by some state enterprises have been adjusted upward in real terms. On the expenditure side, the programmed investments of state enterprises for 1983 have been cut by 25% in real terms; current expenditures would not be allowed to increase in real terms during the year. Furthermore, credit subsidies (equivalent to 5.6% of GDP in 1982) are, for the first time, being reduced by partially linking the principal of loans for agriculture (the main beneficiary of credit subsidies) to the ORTN inflation adjustment index. Though some subsidy element in the official rural credit lines

^{1/} These estimates, discussed in detail in the Country Economic Memorandum, differ somewhat from the estimates made by the Brazilian Government and the IMF because of differences in coverage and methodology.

will remain during 1983, the Government has decided to phase out this subsidy gradually over the next few years (see para. 55 and footnote 8). As a result, the fiscal cost of credit subsidies is projected to fall to between 3-3.5% of GDP by 1986. (In the absence of any policy change, the fiscal cost would have risen to 7.2% of GDP). To complete the fiscal adjustment for 1983, direct subsidies to wheat, sugar and certain petroleum derivatives have been cut substantially. With respect to monetary policy, credit is to be permitted to expand by only 60%, though the expected sharp reduction in the public sector deficit should ease somewhat the credit situation of the private sector.^{2/}

25. In order to assure the competitiveness of exports, and to help reduce domestic interest rates, the cruzeiro was devalued by 30% relative to the U.S. dollar in mid-February 1983. This was in place of the earlier policy, agreed with the IMF, of accelerating the crawling peg. Accompanying measures have included a decrease in the volume of subsidized export credit, the imposition of taxes on primary exports and a reduction of the tax on foreign exchange transactions. The fiscal subsidy (credito premio) to exports of manufactured goods, however, is to be maintained until April 1985. Also, no immediate relaxation of import controls is expected, although the Government has announced its intention to liberalize imports to the extent of savings resulting from falling oil prices.

26. Official disclaimers notwithstanding, the austerity program is likely to provoke a deepening of the 1981-82 recession, with a concomitant increase in unemployment. Should this occur, per capita income growth would be negative for the third consecutive year (in 1982, the GDP is estimated to have grown by about 1.0%). On the brighter side, the expected decline in the public sector deficit, coupled with further monetary restraint, and the recently introduced modification in the wage-setting formula should bring about some reduction of inflationary pressures by the end of the year.^{3/} Most importantly, the major adjustments initiated during 1983, particularly the phasing out of credit subsidies, should, if maintained in subsequent years, serve as the basis for a sustained recovery beginning in the mid-1980s.

27. Medium- and Longer-Term Prospects. Although the policies being implemented are intended to provide the basis for renewed economic growth

^{2/} Owing to the Government's inability to reduce the fiscal deficit by a sufficient amount during the first quarter of 1983, the IMF has delayed the release of the second tranche of the EFF. A new package of economic measures, directed to ensuring compliance with IMF performance targets, is now under preparation by the Government.

^{3/} Given the inflationary impact of the February devaluation, however, the overall increase in prices for 1983 is not expected to show any improvement, and probably some worsening, as compared to the 99.7% rate registered in the previous year.

after a corrective period, accompanied by substantial reduction in inflation, Brazil's medium- and longer-term future (as is that of any economy now) is uncertain at this point. This view mainly derives from uncertainties about the strength and timing of economic recovery in the developed countries, and, thus, the future behavior of crucial factors such as international liquidity, LIBOR, petroleum and other commodity prices, and general investor confidence. Domestically, there are also questions about the impact of the November elections, in which opposition parties carried the most important industrial states, on the ability of the Government to sustain, if necessary, unpopular austerity measures. It does seem likely, however, that in order to avoid further liquidity crises, Brazil will need to adjust to a slower growth path over a number of years with relatively greater reliance being placed on internally-generated savings to finance investment programs.

C. EXTERNAL ASSISTANCE AND CREDITWORTHINESS

28. Brazil faces a difficult adjustment period, especially in 1983. With respect to the external accounts, the Government is seeking to increase the country's merchandise trade surplus to US\$6.0 billion, thereby reducing the current account deficit from US\$14.5 billion in 1982 to US\$7.0 billion in 1983 and slowing the growth of the external debt. At the same time, the Government has arranged for commercial bank assistance to meet Brazil's expected external borrowing needs in 1983. In the financial assistance plan negotiated in February, the foreign commercial banks agreed to make new loans totalling US\$4.5 billion, roll over for an additional eight years US\$4.6 billion of medium- and long-term loans falling due in 1983, make available up to US\$9.4 billion in short-term commercial credits, and restore to approximately US\$7.5 billion the level of deposits held by foreign banks in overseas branches of Brazilian banks.^{4/} This financing package closely matches Brazil's original request, although the restoration of interbank credit obtained so far falls somewhat below the initial target. To a large extent, this shortfall reflects the continued reluctance of many of the smaller regional banks to resume international lending.

29. Achievement of the balance of payments targets for 1983 depends not only on implementation of a range of domestic policies, but also on expanding manufactured exports in a weak world economy and continued support of the international banking community. The Brazilian goal of US\$22.0 billion in merchandise exports for 1983 is in line with the Bank's projected increase in world trade and in Brazil's share of world exports, requiring a 4.5% growth in the volume of manufactured exports. However, Brazil will find it difficult to reduce imports from US\$19.4 billion in 1982, already down from 1981, to the targeted US\$16.0 billion in 1983 without severe disruptions to the economy, since imports consist primarily of oil, and capital and intermediate goods. Even with a drop in world oil prices to an average US\$30 per barrel in 1983, accompanied by a reduction in oil imports from 840,000 bbls/day in 1982 to under 720,000 bbls/day in 1983, total imports are more likely to be in the range of US\$17.0 billion

^{4/} A revised external commercial financing plan for 1983 as well as for 1984 is now being discussed between the Government and leading commercial banks.

in 1983. Thus, the current account deficit for 1983 may be closer to US\$9.0 billion than to the expected US\$7.0 billion, necessitating either further commercial bank borrowing, or rollover of debt, or a deeper recession than was initially anticipated.^{5/} Moreover, tangible results of the austerity program are not likely to be seen until the latter half of the year. Consequently, instances of short-term cash flow problems cannot be ruled out, especially since the country's current reserve position is low.

The Base Case

30. Nonetheless, the Brazilian economy remains dynamic, diversified, and relatively resilient, and the domestic policies now being implemented will have positive effects on growth in the latter half of the decade. In the medium-term, the Bank expects positive real GDP growth after 1983 and a decreasing current account deficit compatible with manageable debt service ratios. Table 1 shows the projected rates of growth for the Brazilian economy for 1983-88 and the increase in savings expected to substitute for some of the foreign borrowings of earlier years. Table 2 shows the external financing requirements and the sources of funds for 1983-88.^{6/} An average of about US\$20.0 billion per year of gross inflows will be required over the period, with 85-92% of the inflows coming from private sources. Total external debt (including undisbursed) would reach US\$113.0 billion by 1988, growing in nominal terms at an average annual rate of 3.8% (4.7% p.a. if only "outstanding and disbursed" debt is considered) in 1983-88. Since international inflation is projected to average 6.9% p.a. during the same period, Brazil's foreign indebtedness would decline in real terms. This may be compared with the 13% real annual growth rate of external debt registered in 1973-78.

31. Following the transition in 1983, projected net medium- and long-term borrowings should fall below 1982 levels by 1984. Consequently,

^{5/} The trade surplus for the first six months of 1983 suggests that imports are being compressed and that the trade surplus target of US\$6.0 billion may well be reached. If this occurs, the 1983 current account deficit and borrowing requirements projected by the Bank will be reduced by about US\$1.0 billion. Nonetheless, the Government is seeking additional funds from commercial banks, on the order of US\$3.5 billion for the rest of 1983, to reduce arrears in debt service and to compensate for shortfalls (compared to what had been expected earlier in the year) in external resources.

^{6/} It should be noted that these projections are predicated on the assumption that international bank borrowings will be available in the amounts indicated, including the rollover of existing levels of short-term debt. To the extent that such rollovers do not, in the aggregate, occur, the need for M< external financing would be increased to sustain the GDP growth rates hypothesized.

the M< debt service ratio is expected to decline from 78% in 1982 to approximately 63% in 1988. Brazil may be able to eliminate its current account deficit by 1988, if the real growth of manufactured exports increases modestly (6% in 1984, 8% in 1988-87, and 10% in 1988), the LIBOR does not exceed 10% (plus a 2% spread), oil prices do not go beyond US\$32/bbl by 1988, and import growth does not exceed GDP growth. In addition, the merchandise surplus would be large enough to cover interest payments on medium- and long-term debt by 1985, eliminating the need to capitalize interest payments. Alternatively, Brazil may choose to increase imports and the rate of economic expansion, depending on its ability to borrow on the international financial market.

Sensitivity Analysis

32. The sensitivity of Brazil's balance of payments to exogenous factors such as petroleum prices, international interest rates, and world market conditions for its exports makes projections inherently imprecise. The sensitivity analyses in Table 3 show the effects of changes in crude oil prices, the LIBOR, and growth in manufactured exports on various indicators of creditworthiness. The same growth rate of GDP, however, was assumed in all cases. As in the base case, these results are not intended as predictions of the future. Rather, they are intended to show the external financing requirements implications of the various underlying assumptions. The greater these projected requirements, presumably, the less feasible the outcome would appear, and the more likely that downward adjustments would have to be made in the rate of GDP growth for Brazil to continue to service its international obligations.

33. Projecting petroleum prices at this point is particularly difficult. In the base case, oil prices are assumed to remain almost constant in nominal terms between 1983 and 1988. If current projections from the Bank's Economic Analysis and Projections Department are used instead, crude oil would rise from US\$30 per barrel in 1983 to US\$41 in 1988 and Brazil's external debt would be about US\$8 billion higher by 1988 than that projected for the base case (Run 2 versus Run 1). However, debt servicing remains manageable, as reflected in the creditworthiness indicators. This result reflects the fact that the quantity of oil imported is expected to fall over the period because of conservation efforts and increased domestic oil production. Even with the higher oil price, oil would account for only 40% of total merchandise imports in dollar terms in 1988, compared to over 50% in 1982. The likely upper and lower bound to oil prices--US\$48/barrel and US\$25/barrel, respectively--are shown in Runs 3 and 4.

Table 1: MACROECONOMIC PERFORMANCE AND PROJECTIONS - BASE RUN
(Annual Real Growth Rates - %)

	Actual	--Estimated--		Projected
	1975-80	1981	1982	1983-88
GDP	6.5	-3.5	1.0	5.1
Agriculture	9.5	6.8	1.0	5.3
Industry	4.6	-8.4	0.0	5.1
Services	7.8	-1.4	1.3	4.8
Consumption	7.7	-6.0	0.0	4.9
Fixed Investment	2.8	-4.1	1.0	5.1
Savings (GNS)	-1.6	0.2	-3.9	7.9
Imports (GNFS)	-1.3	10.9	-15.7	4.5
Petroleum	4.3	-4.9	-2.6	1.6
Exports (GNFS)	6.4	37.7	-1.8	6.0
Manufactures	18.2/ ^a	40.6	7.1	7.5
Marginal Savings Rate/ ^b	0.0	0.0	.98	.30

/a 1975-80 estimates include manufactured and other non-primary exports;
1981-88 estimates are only for manufactured exports.

/b Defined as change in gross national savings/change in gross national
income over the relevant period.

May 3, 1983

Table 2: EXTERNAL FINANCING REQUIREMENTS - BASE RUN
(US\$ Million)

	-----Actual-----		-----P r o j e c t e d-----					
	1981	1982 /a	1983	1984	1985	1986	1987	1988
<u>Requirements</u>								
Current Deficit	10,995	14,539	9,183	7,033	5,316	3,833	2,046	-313
Amortization	7,091	8,671	7,958	8,124	11,342	15,158	16,935	19,182
Brazilian Export Credits								
Abroad (Net)	1,237	1,086	1,207	1,395	1,589	1,820	2,083	2,429
Reserve Additions	687	-4,000	850	904	506	655	727	808
Total	20,010	20,295	19,198	17,456	18,753	21,466	21,791	22,106
<u>Sources</u>								
Direct Investment (Net)	1,585	1,100	1,500	1,553	1,630	1,720	1,814	1,914
Gross Disbursements, M< Debt	15,059	15,184	18,468	13,860	14,974	19,346	21,678	22,192
Official	1,082	1,667	2,018	2,125	2,011	1,805	1,693	1,665
Private	13,977	13,517	16,450	11,735	12,963	17,541	19,985	20,527
Other Capital	3,366	4,011	-770	2,043	2,149	400	-1,700	-2,000
TOTAL	20,010	20,295	19,198	17,456	18,753	21,466	21,792	22,106

/a Preliminary.

May 3, 1983

Table 3: BALANCE OF PAYMENTS SENSITIVITY RUNS

Simulations / <u>d</u>	Current Account Deficit as % of -----GDP-----		Gross Debt Service Ratio/ <u>b</u> -----(%)-----		External M< -----Debt/ <u>c</u> US\$ Bill % GDP	
	1985	1988	1985	1988	1988	1988
	1. Base Case	2	0	67	63	113.1	38
2. Moderate Oil Price	2	1	67	65	121.5	41
3. High Oil Price	3	2	68	68	131.8	44
4. Low Oil Price	2	(1) / <u>a</u>	66	59	102.5	34
5. High Growth of Manufactured Exports	1	(3) / <u>a</u>	63	52	95.6	32
6. Low Growth of Manufactured Exports	3	2	70	72	125.2	42
7. High LIBOR	3	1	76	75	132.5	44
8. Low LIBOR	1	(1)/ <u>a</u>	59	53	96.4	32
9. "Worst Case" / <u>e</u>	5	5	80	93	165.3	55

/a Current account surplus.

/b Amortization and interest as percentage of exports of goods and non-factor services.

/c Includes undisbursed debt.

/d Underlying assumptions of simulations:

	1983	1984	1985	1986	1987	1988
1. <u>Base Case</u>						
Oil price (US\$/barrel)	\$ 30	\$ 29	\$ 29	\$ 30	\$ 31	\$ 32
Real Mft. Export Growth (%)	4.5	6.0	6.0	8.0	8.0	10.0
LIBOR (%)	10.0	10.0	10.0	10.0	10.0	10.0
GDP Growth (%)	-3.5	3.5	5.0	5.5	5.5	5.5
2. Medium Oil Price (US\$/barrel)	\$ 30	\$ 31	\$ 32	\$ 35	\$ 38	\$ 41
3. High Oil Price (US\$/barrel)	\$ 30	\$ 36	\$ 38	\$ 42	\$ 45	\$ 48
4. Low Oil Price	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25	\$ 25
5. High Real Mft. Export Growth (%)	6.0	12.0	12.0	12.0	12.0	12.0
6. Low Real Mft. Export Growth (%)	2.0	3.0	3.0	3.0	4.0	5.0
7. High LIBOR (%)	13.0	13.0	13.0	13.0	13.0	13.0
8. Low LIBOR (%)	7.0	7.0	7.0	7.0	7.0	7.0

/e Combines "high oil price" (run 3), "low growth of manufactured exports" (run 6), and "high LIBOR" (run 7).

33. Brazil would benefit substantially from lower interest rates and a rapid expansion in its foreign markets. A reduction in the LIBOR from 10% to 7% would significantly reduce the debt service ratio in 1988, from 63% in the base case to 53% in Run 8. A similar reduction in the debt service ratio would occur with real manufactured export growth on the order of 12% per year for the period (Run 5). With little real growth in manufactured exports attributable to slow recovery in its foreign markets, or with rising LIBOR rates and oil prices, Brazil's debt service ratio would rise beyond 70% by 1988 and its M< debt to GDP ratio would exceed 40% (Runs 3, 6, and 7). Of the scenarios tested here, only the worst case, which implies a world economy (translated into Brazilian exports) choked off by rising oil prices and high interest rates, would require a significant growth of debt in real terms, an outcome considered unlikely to be sustained in the medium term. Although none of the above scenarios are expected, they point out Brazil's vulnerability to factors essentially beyond its control, and the need for constant monitoring of creditworthiness indicators as external conditions change.

D. WORLD BANK STRATEGY

Short-Run Response

34. The present and prospective adjustments described in paras. 23-27 will need to be accompanied by complementary adjustments in the Bank-Brazil relationship. In the short-run, this will mean responding adequately, and in a timely fashion, to Brazil's pressing and large external financing needs at a time when the country is embarking upon a courageous and comprehensive stabilization program. Perhaps a positive side of the current economic and financial crisis lies in the fact that it is forcing Brazil to speed up the implementation of far-reaching policy measures long recommended by the Bank (para. 42). The Bank should build upon these circumstances by setting into motion a process that would help maintain the proper balance between the ongoing drive to restore short-term equilibria and the need to continue promoting structural transformation. An appropriate Bank response should be in the form of operations that would: (a) be quick-disbursing; (b) minimize claims on public resources; and (c) induce further macroeconomic and sectoral policy changes.

35. It is recommended that our efforts to develop quick-disbursing, policy-based operations to assist Brazil during the period of the IMF-sanctioned austerity program be primarily in the form of sector loans. Work has been initiated on an industrial sector loan designed to finance imports destined to industrial exports, and to rationalize the present system of industrial and export policies and incentives (see para. 72). Likewise, work is in progress on an agricultural loan designed to support Government plans to eliminate agricultural credit subsidies and to lay the groundwork for a more rational rural credit system in Brazil (see para. 55). We hope to be able to present these quick-disbursing sector loans to the Board by early FY84. Including these sector loans in our FY84 operations might require a postponement of one or two projects in our

regular program as present plans call for total lending not to exceed US\$1.1 billion in FY84.

36. There is also a strong case for extending to Brazil the benefit of some of the other proposals submitted to the Executive Directors for accelerating World Bank resource transfers. It has been proposed that supplementary financing be provided by the Bank to help speed up completion of a number of important projects to help make up for temporary shortfalls in local matching funds for rural development and associated projects. The "working capital facility"^{7/} being provided under the recently approved Third Agro-Industries Project is another illustration of the kind of adjustments that we will seek to build into our projects as part of our efforts to help Brazil through this difficult transition period.

37. The slow disbursement of Bank funds to Brazil is another issue deserving attention. Actual cumulative disbursements as of the end of FY82 represented 89% of the profile estimate, as compared to an average of 95% for all LAC Region's countries. Efforts to correct these disbursement shortcomings are underway and partly as a result of these efforts, Bank disbursements in FY83 showed a 60% increase over FY82. Greater use and streamlining of the operation of "Project Special Accounts" into which Bank funds are deposited in advance, and which allow disbursements of Bank funds to be made at the exchange rate prevailing on the date of expenditure, has accounted for some of this noted improvement. The Government has requested that "special accounts" be provided for under all new loans. The Bank should continue to meet these requests.

38. However, establishing "special accounts" deals with only part of the factors contributing to slow disbursement of Bank funds. Provision of local matching funds in an untimely fashion or in insufficient amounts are also indirect disbursement problems that are being given greater attention, especially given Brazil's short-term financial difficulties. A number of possible measures for improving the budgeting and release of local matching funds for Bank-financed projects were identified at the first Country Project Implementation Review held in December, 1982. The details of these measures have been formalized during a Second Project Implementation Review held in July 1983. The implementation of these measures is now being initiated and should continue to receive priority attention in project supervision during the months ahead. The Central Bank has agreed to establish a system for providing cruzeiro advances to project executing agencies. These advances which would be agreed between the Central Bank and each executing agency would be made against amounts on deposit in the Special Accounts.

^{7/} This working capital facility, to which the Bank will contribute an amount of US\$150 million, was added to a loan for investment financing in order to provide working capital finance to beneficiary enterprises.

39. Finally, the Bank has to face squarely the present anomalous situation in which we find ourselves encouraging the Brazilian effort to cut back on public expenditures, while at the same time trying to retain in the lending program projects considered of a sufficiently high priority by both the Government and the Bank which might otherwise fall victims to the drive to cut public expenditures. Increasing cost sharing from 35% to say 50% during the next two critical years within the limit of the authorized lending program could help reconcile these apparently conflicting goals. It should be noted, however, that such an action makes much better sense -- i.e., is more defensible to the Bank -- as a general policy, applied to all or most projects over a certain period, than if it is done sporadically, on an ad hoc basis for individual projects.

Medium- and Longer-Term Response

40. Helping ease Brazil's short-term adjustment efforts through quick disbursing, policy-based operations should be seen as part of the Bank's overall strategy to maintain the focus of the Bank-Brazil relationship on medium- and longer-term issues (see paras. 43-46 below). Changing world and domestic conditions make it unlikely that the "economic miracle" of the late 1960s and early 1970s can be repeated. Brazilian policy-makers, therefore, are now faced with the formidable challenge of devising and implementing a development model more compatible with the outlook of lower average economic growth rates and reduced availability of external resources, and geared to satisfying the country's vast unmet social needs. Preparation for this eventuality cannot be delayed, and the Bank can, and should, be expected to play an important role in this respect.

41. The responsibility for designing and implementing economic policies, of course, rests, in the first instance, with the Government. Our principal challenge is to define how the Bank could best assist Brazil with its coming transition from a short-term stabilization program to a new, and probably different, path of development in the mid- to late 1980s. Meeting this challenge will require the maintenance of a close policy dialogue with the Government, supported by a lending program based on technically well-founded economic and sector work.

42. Economic and sector work carried out during the past few years has addressed many of the major areas of present concern to Brazilian policy-makers: agricultural policies (including rural credit and consumer subsidies), domestic capital markets, industrial policies and manufactured exports, wage policies, public sector investment, energy, state and local finances, health finance, frontier development, and rural development in the Northeast. Both the breadth and depth of our policy dialogue has been greatly enhanced by this work, although there have continued to be lapses in areas such as the pricing of public goods and services, trade policies and interest rates. However, many recent policy initiatives (e.g., reduction of credit, and consumer, subsidies; reforms in the foreign trade and exchange regime; improved financial management of public enterprises; development of a consolidated, multi-year public investment program) closely follow Bank recommendations.

43. Given the current economic situation, the Bank is in a good position to follow up on, and reinforce, these policy initiatives during the coming years. The priority areas for future Bank action, in light of the prospects of lower growth and reduced availability of external resources in the 1980s, would be: (a) structural transformation and efficient resource use; (b) human resource development and poverty alleviation; and (c) cost-effective development of domestic energy resources and energy conservation. Each of these priority areas is multi-faceted and, to a great extent, interdependent with the others.

44. Bank actions in support of structural transformation and efficient resource use would encompass both the public and private sectors. In the Government sphere, the upgrading of planning, budgeting (including tax administration) and project evaluation capabilities will be needed in order to avoid low priority investment projects and, through more careful phasing of ongoing projects, to keep total spending within the limits of resource availability (see para. 79 for details on EDI's role in this endeavor). Measures requiring public enterprises to operate according to private criteria of profitability will also be necessary. The private sector's contribution to economic growth and export performance can be increased if the Government succeeds in reducing the public sector deficit and leans more toward privatization and providing the right price signals. Transforming high-cost industries into efficient ones capable of competing internationally through adjustments in commodity prices, tariffs and factor costs could foster increased production and employment, expanded foreign exchange earnings, and energy conservation. With the shift away from credit subsidies as the principal production incentive in agriculture, it will be necessary to ensure that sector policies contemplate other incentives (e.g., adequate farm price supports, efficient marketing channels, a realistic exchange rate policy, and flexible retail prices) for increasing production and productivity.

45. In the area of human resource development and poverty alleviation, the Bank would give priority to supporting policies and programs directed to increasing employment opportunities and broadening the coverage of basic social services. Since it has been estimated that at least a 5% increase in the GDP is necessary just to absorb new entrants to the labor force, increasing rates of unemployment and underemployment might ensue if mitigatory measures are not taken. Such measures could include increased assistance to labor-intensive activities, the progressive substitution of payroll taxes by more neutral forms of taxation, a flexible wage policy, and greater activity in the area of manpower planning and training. With the latitude for achieving poverty alleviation through the "trickle-down" approach narrowed by prospective lower growth rates, care will also be needed to avoid that budget cuts fall disproportionately on social programs. A major expansion of social services may only be feasible through the further development of low-cost delivery systems, perhaps in conjunction with user charges.

46. In the energy area, Bank activity would support Government initiatives aimed at reducing Brazil's dependence on foreign petroleum, which presently accounts for about one-third of Brazil's energy needs, and

one-half of its total imports. To a large extent, achieving this objective will require a reform of energy pricing policies with a view to adjusting the prices of all competing energy sources to reflect their respective true economic costs. Such a reform would promote conservation, while permitting the substitution of imported energy by domestic sources to proceed on a more cost-effective basis. Other desirable measures could include improvements in the efficiency of Brazil's petroleum refineries, and the development of more energy-efficient transportation modes.

47. The present circumstances where the Bank has become both an important source of development advice and a relatively more important source of external finance, call for a certain reorientation of our lending strategy for, and modus operandi, in Brazil. First, it is clear that we should attempt to induce more policy changes per dollar lent. This implies a closer link than heretofore between economic and sector work and the lending program. It also implies that a larger volume of lending would need to be channeled through sector and program loans when this allows a better handling of policy issues. We should, therefore, look forward to some consolidation of our lending program in the latter part of the period covered by the recommended lending program for FY84-88 when sector- or program-type operations in education and rural development would allow a reduction in the number of projects. For the next two to three years, an increase in the number of projects is more likely since the structural adjustment operations being proposed would more than offset the shift of presently scheduled projects to subsequent fiscal years. Such a concentration of lending would also be in line with our objective to step up resource transfers in support of the Government's adjustment program.

48. Second, there is a need for greater selectivity with regard to choice of new projects, and greater transfer of the Bank's know-how, and some of its project processing and supervision responsibilities, to Brazilian institutions. Under present Bank guidelines, the initiation of the graduation process for Brazil would not commence until the end of the present decade. However, relatively high levels of technical and administrative development are already being reached in some sectors and subsectors. In a number of sectors or subsectors, particularly those where we have been active for several decades, we may be accomplishing less and less in terms of institutional and policy impacts. Power distribution, urban water supply and sewerage, and railways are examples of sectors where we should reduce or phase out lending over the next five years. Similarly, we should enter new fields after having satisfied ourselves that lasting institutional and policy impacts would be feasible. An important part of our attention will be devoted to the social sectors, where planning and implementation capabilities are typically weak and responsibilities split between the federal, state and local governments. As far as possible, we would focus on the poorest states, where social service coverage tends to be low and public revenues to deliver these services limited, although in certain instances innovative techniques may best be started in states with large revenue bases and efficient public administration, before being replicated in other states or on a national scale.

E. WORLD BANK GROUP PROGRAM

Size of Lending

50. The present approved lending program for the FY83-87 period totals US\$6.0 billion. Since December 1982, when the above allocation was approved, prospects for the Bank influencing the formulation of economic policies geared toward medium- and longer-term considerations have improved considerably, and increased Bank lending in support of the Government's structural adjustment efforts would seem justifiable. A number of sector- or program-type operations currently being processed might need to be repeated to support a continuing policy dialogue, while our project lending, which has gathered considerable momentum in recent years, cannot be reduced beyond a certain critical level without jeopardizing important institution-building and poverty-alleviation objectives. Attachment 1 sets out a recommended lending program and Reserve List incorporating what is considered to be a desirable balance between sector and project lending. It is assumed that the FY84-88 lending program for Brazil could reach US\$6.5 billion (an increase of less than 2% in real terms as compared to the present approved lending program for FY83-87). This proposed lending level would maintain Brazil's share in the Bank's loan portfolio around 8% by 1991.

51. The following table compares the approved FY83-87 lending program and the recommended FY84-88 lending program by main lending objectives:

Table 4: APPROVED AND RECOMMENDED LENDING PROGRAMS, BY OBJECTIVE

Lending Objectives	(US\$ Millions)					
	Approved FY83-87 Lending Program			Recommended FY84-88 Lending Program		
	Total	%	No. of Projects	Total	%	No. of Projects
Structural Transformation/ Resource Use Rationalization	2,315.5	38.5	13	2,842.3	43.7	15
Poverty Alleviation/Human Resources Development	2,757.4	45.9	23	2,407.7	37.0	23
Energy Development and Conservation	<u>940.0</u>	<u>15.6</u>	<u>5</u>	<u>1,250.0</u>	<u>19.3</u>	<u>5</u>
<u>TOTAL</u>	<u>6,012.9</u>	<u>100.0</u>	<u>41</u>	<u>6,500.0</u>	<u>100.0</u>	<u>43</u>

In comparison to the approved lending program, the largest increases in the recommended lending program, both in terms of lending volume and number of projects, would be in the area of structural transformation/resource use rationalization. A number of large policy-based sector operations in agriculture and industry, previously included in the reserve category, have now been included in the regular lending program. This is predicated on expected progress in our policy dialogue with the Government, and the emphasis we wish to place on the promotion of agricultural and industrial production and exports, and on related policy changes. In terms of lending volume, the relative share of human resource development/poverty alleviation would decline, and that of energy development and conservation efforts would increase slightly. The proposed operations, however, reflect some important changes in our approach to the relevant sectors which are discussed in the following section.

Sectoral Distribution 8/

52. The sectoral distribution of the approved and recommended lending programs is summarized below:

Table 5: APPROVED AND RECOMMENDED LENDING PROGRAMS, BY SECTOR

	(US\$\$ Millions)					
	Approved			Recommended		
	FY83-87 Lending Program			FY84-88 Lending Program		
	Total	%	No. of Projects	Total	%	No. of Projects
Agriculture	1,482.0	24.6	13	2,157.3	33.2	15
(of which: sector-type operations)	(250.0)	(4.1)	(1)	(1,250.0)	(19.2)	(5)
Education	190.0	3.3	3	300.0	4.6	4
Health	120.0	2.0	2	170.0	2.6	3
Water & Sewerage	750.0	12.5	3	250.0	3.8	2
Transportation	304.0	5.0	3	200.0	3.1	2
Industry	1,265.5	21.0	5	1,150.0	17.7	5
(of which: sector-type operations)	(961.0)	(16.0)	(4)	(1,050.0)	(16.2)	(4)
Electric Power	1,040.0	17.3	5	800.0	12.3	4
(of which: rural elec- trification)	(650.0)	(10.8)	(3)	(550.0)	(8.5)	(3)
Other Energy	550.0	9.1	3	1,000.0	15.4	4
Urban Development	311.4	5.2	4	472.7	7.3	4
<u>TOTAL</u>	<u>6,012.9</u>	<u>100.0</u>	<u>41</u>	<u>6,500.0</u>	<u>100.0</u>	<u>43</u>

8/ Details on the supporting economic and sector work program are contained in Attachment 4.

53. Agriculture. Real growth in this sector has averaged about 5% per annum since World War II, a performance paralleled by few other countries in the world. Today, agriculture employs 36% of Brazil's labor force, and accounts for about one-half of the country's total export earnings. These aggregate indicators, however, obscure the dual nature of Brazilian agriculture -- most of the productivity gains, expanded production areas, and increased market integration experienced in the recent past have occurred in the South and Center-West, while the North and Northeast have largely continued to use traditional agriculture practices with rudimentary technology. Also, many postwar macroeconomic policies (e.g., export taxes, quotas and prohibitions, price controls on basic foodstuffs, high protection of domestic industry) tended to discriminate against the agricultural sector. In order to maintain production incentives in this overall policy environment, primary reliance was placed on the expansion of rural credit at highly subsidized interest rates. The economic distortions and inflationary pressures caused by this subsidy element have been well documented in Bank reports on Brazilian agricultural policies (1981; Report No. 3305-BR) and financial systems (1980; Report No. 2790a-BR).

54. Bank lending so far for agriculture and rural development comprises 27 loans, totalling almost US\$1.5 billion. Of this total, 18 loans (US\$566 million) have supported settlement, rural development and irrigation in the Northeast and Amazon regions. These area-specific, poverty-oriented projects have been complemented by loans directed to upgrading the national agricultural research (2 loans) and extension services. Other areas of Bank activity have included agro-industry (3 loans), livestock development and grain storage. A more extensive Bank involvement in agriculture has, until now, been hampered mainly by a lack of progress in the policy dialogue on rural credit, although institutional weakness (especially in the poorer regions) has also been an important factor.

55. Given agriculture's large potential contribution to export growth and import substitution, and poverty alleviation, adjustments in this sector will be crucial to Brazil's transition from stabilization to growth. The steps already initiated to eliminate the subsidy element in rural credit, if continued, would permit a major increase in lending for agriculture during FY84-88. This prospective expansion of lending would, in turn, allow a greater role for the Bank in helping to shape further adjustments in the sector. In particular, the recent agreement with the Government on a timetable for phasing out credit subsidies would justify a quick-disbursing sector loan (US\$300 million) in early FY84, to be followed, assuming that progress in this area continues, by free-standing agricultural credit projects of US\$250 million each in FY85 and FY87.^{9/}

^{9/} The agreed timetable for phasing out agricultural credit subsidies is as follows (% of ORTN inflation adjustment index):

	<u>North/Northeast</u>	<u>Center-South</u>	<u>Interest Rate</u>
July 1983-June 1984	70	85	5
July 1984-June 1985	80	95	5
July 1985-June 1986	85	100	5

These proposed loans are expected to be linked to measures aimed at improving the coverage and efficiency of the rural credit delivery system. Two additional agricultural sector loans have been recommended (FY85, US\$250 million; FY86, US\$200 million) in the expectation of a successful outcome of the policy dialogue on non-credit agricultural incentives such as farm price supports, marketing arrangements, and export promotion schemes.

56. As in the past, the bulk of the poverty-oriented lending in agriculture would support small-farmer development in the Northeast. But instead of financing individual rural development projects with limited geographical scopes, there would be a move to a region-wide approach. This change in the lending mode is made possible by the institution-building achieved through both Bank- and Government-financed rural development projects, and the improvements in sector knowledge gained through the recent Bank report on Northeast rural development (1983; Report No. 3938-BR). Reflecting the findings of this report, the Northeast sector loans proposed for FY85, FY86, and FY88 (amounting to US\$80 million, US\$70 million and US\$100 million, respectively) would place greater emphasis than heretofore on production and productivity, project simplification and decentralized management, and closer integration with urban development. Two free-standing irrigation loans (FY85, US\$60 million; FY88, US\$100 million), repeater loans in support of agricultural research (FY88, US\$100 million) and extension (FY87, US\$100 million), and a loan for land titling (FY86, US\$50 million) would further assist with small-farmer development in the Northeast, and elsewhere in Brazil.

57. It is clear that the realization of an ambitious lending program in FY84-88, and the maintenance of a meaningful policy dialogue, in agriculture will create a demand for an expansion of supporting economic and sector work. This demand would be met most directly through analyses of agricultural incentives, an agricultural sector review (including irrigation), and special studies on Northeast rural development planned for FY84-85. In order to facilitate this work, an April 1983 Bank mission agreed on a program of agricultural policy studies to be carried out jointly with Brazilian authorities. Topics initially chosen for analysis include: the price-formation process, minimum price policies, commercial/export policies, rural credit policies, comparative advantage, and marketing issues. It is expected that a joint Bank-Government policy paper, incorporating the findings of the above studies, will be forthcoming before the end of 1983. The findings of scheduled ESW on poverty, population, employment, export promotion programs, and financial policies would also provide useful, although more indirect, inputs to the work specific to agriculture.

58. Education. Material progress has been achieved in this sector over the past decade as evidenced, inter alia, by rising literacy rates and enrollment ratios (para. 6). However, the quality of, and access to, education services continues to vary significantly among, and within, Brazil's regions. Major deficiencies in planning, management and finance also plague the system at all levels of Government. Past Bank lending in education has included four free-standing loans, totalling about US\$100

million, and a number of education components in rural development projects. These loans have dealt with agricultural and technical education at the secondary and post-secondary levels, vocational training, the implementation of the national education reform law at basic and secondary levels in the more populous areas of the North and Northeast, and basic education in the rural Northeast.

59. In the future, lending priorities would continue to center around: reducing inequalities in access to basic education and improving efficiency at this level; improving the responsiveness of the training system to market demands for skilled manpower; and upgrading educational management capacities at the federal, state and local levels. There is thus a clear focus on employment and poverty alleviation objectives, as well as more efficient resource use. During FY84 and FY85, these objectives would be addressed, as in the past, through a subsectoral approach. Proposed for this period include loans in support of: basic education in the North and Center-West (FY84, US\$40 million); education, training and research in science and technology (FY85, US\$100 million); and agricultural and industrial technician training (FY85, US\$60 million).

60. The longer-term goal in education would be to move to a sector approach, concentrating on the alleviation of major bottlenecks in the system identified through project experience and sector work. To this end, an education sector loan (US\$100 million) has been programmed for FY87. Substantial sector work, emphasizing issues of educational management and finance, and the development of a long-term education development plan, has been scheduled for FY84-85 in anticipation of this eventuality. Much of this work would be carried out by Brazilian institutions, including those outside of the Federal Education Ministry, utilizing funds from Bank-financed projects. In addition, a research proposal on the returns to investments in school quality in rural Brazil is presently under consideration.

61. Population, Health and Nutrition. Bank activity in this sector has been relatively modest, especially in light of health conditions in Brazil, which are generally poorer than those of other countries with similar per capita incomes. So far, the Bank has made only one free-standing health loan (1981, US\$13 million), associated with the Northwest Development Program, although considerable experience has been gained through the implementation of health components of rural development projects. A Nutrition Research and Development Project (US\$19 million) was approved in 1976, but any follow-up would depend upon the outcome of a departmental review of the experience of the first project.

62. A more active involvement in health has, until recently, been constrained mainly by the lack of a coherent sector strategy on the part of the Government, and by an imperfect knowledge of the sector on the part of the Bank. Both of these constraints are now being eased. In 1981, the Government created a high-level advisory committee (CONASP) on health care delivery and costs whose major recommendations are presently being implemented. Although CONASP is mainly concerned with the social security system, its work has been an important step in the development of a national health policy. A special fund for social investments (FINSOCIAL), including health, has also been established. During the preparation of the

proposed Sao Paulo Health Project (FY84, US\$40 million), much has been learned by Bank staff about peri-urban health issues and health finance. Additional gaps in our knowledge will be closed in the coming years through programmed sector work on health sector issues and poverty, and policy studies to be carried out by Brazilian researchers with funds from the Sao Paulo project.

63. Lending proposed for FY84-88 would have a strong poverty orientation, with projects aimed at expanding primary health services to the urban poor of Sao Paulo, and later (FY85, US\$80 million) to the poor of the Northeast. In addition to furthering poverty alleviation, these proposed projects would also promote efficient resource use through the development and testing of more cost-effective health delivery systems. Also, it is hoped that expanded Bank activity in the health sector will serve as the main vehicle for initiating a policy dialogue on family planning. In anticipation of this, work on fertility, population and migration has been included in the ESW program (FY84), and a health/population project (US\$50 million) is proposed for FY87.

64. Water and Sewerage. Economic and sector work completed in the last few years has found a close positive relationship between accessibility to safe water and sanitary sewerage facilities, and improved health conditions.^{10/} The impressive increase in the coverage of these services over the past decade (para. 6) is largely attributable to the success of PLANASA, a nationwide program to finance, promote and coordinate actions in the water supply and sewerage sector. The disparity between rural and urban service levels, however, remains high.^{11/} The Bank has been assisting with the implementation of PLANASA since 1971. To date, the Bank has provided over US\$1 billion for 10 urban-oriented water supply and sewerage projects, the most recent (FY83) being a US\$302 million sector loan to finance a time-slice of PLANASA's multi-year investment plan.

65. Through its past lending in the sector, the Bank has made important contributions to: the preparation and enactment of the National Tariff Law and the implementation of tariff increases on a quarterly basis, the standardization of the operational and accounting procedures of state water companies, and the decentralization of preparation and supervision activities to the regional level. Proposed further lending for water supply and sewerage in FY84-88 includes an additional sector loan in FY86 (US\$150 million), and a loan for rural water supply and sanitation in FY88 (US\$100 million). The former would be intended to consolidate the actions and reforms initiated through ongoing loans directed to promoting

^{10/} "Brazil Human Resources Special Report" (red cover, 1979) and T. Merrick, "The Impact of Access to Piped Water on Infant Mortality in Urban Brazil, 1970 to 1976" (unpublished DPS paper, 1981).

^{11/} In 1980, water supply service levels stood at 74% for the urban population, compared to 8% in the rural areas. Thirty-five percent of the urban population were connected to a sewerage system in the same year; sanitation services are practically non-existent in rural areas.

institutional development, sound financial management and cost recovery, and poverty alleviation. The latter would be directed to redressing the imbalance between urban and rural service levels through the development of realistic standards and objectives, coordination of investment programs, introduction of low-cost technologies, and training. The Reserve Project list includes a further water supply and sewerage sector loan (US\$ 200 million, FY88 R) which may be a prime candidate for inclusion in the active lending program if and when conditions permit.

66. Transport. The development of the transportation network absorbed about 20% of total public investment over the 1974-78 period. Current transport strategy reflects the Government's policy to reduce dependency on imported oil, and to facilitate the smooth and economical flow of exports, and evacuation of production from frontier areas. The related investment program emphasizes the maintenance of existing road and railway infrastructure, expansion of the feeder and farm access road network, and improvement of existing ports. Serious consideration is also being given to the development of inland ports and waterways and coastal shipping, which could play an important role in further improving the energy efficiency of the national transport system. Work on these newer aspects, however, has so far been limited as the relative share of transport in public investments has been reduced.

67. Bank involvement in the transport sector is both long-standing and diversified, including loans for roads and highways, railways, ports, urban transport, and components in rural development projects. During FY84-88, Bank lending in the transport sector would continue the emphasis of recent years on improvements in sector management and investment planning, an increasingly important objective given current constraints on resources. Our posture regarding the railway subsector is illustrative in this regard. Because the Government has failed to phase the implementation schedule for the so-called "Ferrovia do Aço"--which the Bank believes to be an economically marginal investment--in a manner that would substantially improve its economic justification, the bank has discontinued financing for the railway subsector where our institution-building role is also becoming marginal. The Government is currently carrying out a review of its railway investment program, as well as a study of means for rationalizing railway operations. Also, we have received indications that the Government is now considering an appropriate stretched-out implementation schedule for the Ferrovia do Aço. Should these indications be confirmed, and should the results of the railway investment review indicate a possible role for the Bank to influence the overall allocation of resources and policies for the subsector, lending may be resumed. A railway project has been included in the Reserve Project List for this purpose. The Reserve List also includes an inland waterway project and a coastal shipping project, pending the completion of ongoing economic and sector work, and a better definition of Government priorities.

68. Two transport loans have been included in the proposed lending program. A highway rehabilitation project (FY86, US\$50 million) would reinforce the Government's current emphasis on rehabilitation and maintenance rather than new construction. Emphasis would be placed on those parts of the primary road network where heavy traffic has led to

deterioration which normal maintenance cannot prevent or rectify and where further deterioration would prejudice the efficient transport of exports. A follow-up feeder roads project (FY86, US\$150 million) would concentrate on the agricultural areas and support the recommended increase in lending for agriculture.

69. Industry. This sector presently accounts for about 38% of the GDP (28% in the case of manufacturing only), 50% of total exports and 24% of the labor force. From 1967 to 1973, manufactured output and exports grew at unprecedented rates of 13.9% and 36%, respectively. Idle capacity in the sector, expansionary fiscal and monetary policies and a favorable international environment all contributed to this boom. In the years following the first oil shock, however, both output and export growth fell to less than half the 1967-73 rates. The second half of the 1970s also witnessed a return to an active import-substitution strategy, particularly in capital and intermediate goods, while the structure of export incentives remained virtually unchanged.

70. Since 1975, direct Bank lending for industry has comprised nine projects, totalling about US\$1 billion. By and large, these have been large-scale, import-substituting projects in the state sector: steel, fertilizer, petrochemicals and aluminum. More recent projects have supported Government priorities in energy development (FY81, Alcohol and Biomass Energy) and export promotion (FY83, Carajas Iron Ore). The Bank has also helped to finance two DFC operations, amounting to US\$305 million, since 1975, although the first of these had to be cancelled because of disagreements over interest rate policies.

71. Brazil's industrial strategy for the next decade, and particularly for the next four or five years, revolves around the performance of the external sector. With manufactured exports accounting for around half of total exports, a high growth rate of the former is a prerequisite for sustained growth in the next few years. The Bank's involvement with industrial sector and export policies has increased recently, in the context of an industrial sector mission in 1981 and the elaboration of a report on industrial policies and manufactured exports (Report No. 3766-BR) in the following year. As a result of these initiatives, and during the preparation of a Second Development Banking Project (FY82, US\$220 million), a number of medium-term policy issues (exchange rate management, reduction of export subsidies, interest rates, price controls) were identified where further work was needed, and an active policy dialogue between the Bank and the Government has taken place. Encouraging the Brazilian Government to enact liberalizing industrial and trade policy reforms over the coming years constitutes one of the Bank's major goals and challenges. To move towards such reforms it will be necessary to a) increase the Government's understanding and perception of the effects of present policies, b) develop well prepared options and proposals for policy change and c) build consensus within the Government and its constituencies. For these purposes a joint Bank-Government work group has been established to undertake policy oriented analysis and studies.

72. Following up on this improving policy dialogue, Bank assistance to the sector over the next five years would be based on an expanded lending program comprised of an additional IDF-type industrial credit project (FY85, US\$200 million) and, in order to facilitate the adjustment process, a series of quick-disbursing sector loans (FY84, US\$350 million; FY86, US\$250 million; and FY87, US\$250 million). A Technology Development Loan (US\$100 million) has been proposed for FY88, pending the outcome of sector work on this topic. Lending would be closely linked to industrial and trade policy discussions and, especially in the case of sector loans, to specific policy conditionality to ensure the adoption and continuation of a coherent medium-term economic program. The proposed first Industrial Sector Loan, for example, would be linked to the implementation of measures to expand and liberalize the "imports-for-exports" drawback scheme, thereby moving towards a de facto free trade regime for export production. The Government would agree to increase the volume of drawback imports so as to raise the coverage of the scheme over time (for 1983, the floor of drawback imports has been agreed at US\$1.5 billion, representing a 50% increase of such imports over the previous year). Other conditions of this proposed loan would include agreements on measures to improve the efficiency and automaticity of the drawback mechanism itself. Also, it is being recommended that some funds from the proposed loan be utilized to support the efforts of the Government's newly-formed work group on industrial and trade policies. Additional sector work is aimed at supporting the general expansion, and greater policy-orientation, of the proposed lending program for industry; the preparation of an industrial sector strategy paper is also to be carried out in FY84-85. Therefore, subsequent industrial sector loans are expected to incorporate tariff and other reforms identified by these studies.

73. Energy. Since 1973, Brazil has made major efforts to reduce petroleum imports and increase the production of alternative energy sources. The Bank has supported these efforts, through lending for the development, transmission, and use of hydroelectric energy, and for alcohol and biomass energy development. The Bank's involvement in the power sector, which predates the oil crisis by over 20 years, has resulted in 34 loans amounting to about US\$1.7 billion. The alcohol loan, signed in 1981, was for US\$250 million.

74. With the severe shortage of foreign exchange and need to reduce the public sector deficit, Brazil needs to give top priority to efficient use of all energy resources, while continuing to encourage development of domestic energy on a cost-effective basis without Government subsidies. Past ESW ("Brazil: Energy Issues and Prospects"; Report No. 3424a-BR; December 10, 1982) has assessed the general energy situation in the country, focusing mainly on the economic and technological aspects of producing different fuels. Although a useful contribution to the development of a lending program in the energy sector, this work touched only lightly on the macroeconomic impacts of energy policies such as domestic petroleum pricing, production and consumption subsidies, fuels taxation, and so forth. Moreover, it did not take into account the implications for Brazil of recent changes in the world energy outlook.

75. A Bank strategy for further involvement in the energy sector is now being developed to update the Brazil energy assessment, and to explore more fully some of the macroeconomic issues. A Bank mission was in Brazil this summer to begin preparation of the strategy which is scheduled for completion in FY84. Thus, the FY84-88 lending program for energy development and conservation should be considered tentative. Future lending is expected to be conditional on appropriate pricing of the various types of energy, so as to provide sufficient incentives to producers while encouraging conservation by users and reducing government subsidies. The Bank is likely to press for relatively more emphasis on conservation and less on production than Government plans call for. Accordingly, four unidentified energy loans, amounting to US\$1 billion, are tentatively scheduled for FY84-88 to provide a vehicle for lending accompanied by policy conditionality. The specific nature of these loans will be based on the findings of the Brazil energy strategy paper, and after careful analysis of the relative merits of competing project proposals. Given the large increases in hydroelectric generation capacity in the next few years, and the need to further support agricultural production, future Bank involvement in the power sector will emphasize rural electrification.

76. Urban Development. Rapid urban growth, which has raised the share of the population in urban areas from 36% in 1950 to 67% in 1980, has severely strained the shelter, infrastructure and public service capability of cities. The Government's urban policy has been to improve the living conditions of those already in cities while attempting to deflect migration from large metropolitan areas toward smaller urban centers. The Bank has supported the Government's urban policy with loans for extending water and sewerage services (see section on Water and Sewerage) and improving urban infrastructure and services. To date, seven urban loans totalling US\$633 million have been made -- three for urban transport and four for improving housing and public services for the urban poor and the general infrastructure for carrying on economic activity.

77. The recommended FY84-88 lending program reflects a continuation of the Bank's past strategy to address the needs of poverty groups at different levels of Brazil's urban hierarchy, and to improve the administrative capabilities of federal and local institutions involved with urban development. Four loans are proposed with these objectives in mind. The first of these (FY84, US\$52.7 million) aims at strengthening infrastructure services and administration of small market towns in the State of Parana. The second (FY85, US\$150 million) would follow-up on, by expanding to other cities, the First Medium-Sized Cities Loan (US\$70 million) approved in FY79. The third (FY87, US\$70 million) would be directed to promoting the integrated development of the northeastern metropolitan cities of Salvador and Fortaleza. A similar loan (FY82, US\$123.9 million) for the northeastern city of Recife is already being implemented. Like the Recife project, the proposed project would have a strong poverty alleviation and employment focus. It would also, to the extent possible, incorporate the recommendations for improving local resource mobilization contained in the Bank report on Brazilian state and local finances (Report No. 4060-BR; green cover, September 27, 1982), an aspect which, in retrospect, was not sufficiently stressed in the Recife

project. In anticipation of the proposed Salvador/Fortaleza project, a Development Engineering Loan (US\$8.9 million) for these cities was approved in FY83. Finally, an urban sector loan (US\$200 million) is proposed for FY88. The specific content of the proposed project has not yet been determined, but it is likely to incorporate conditionalities related to general and financial urban management. The findings of a Brazil urban strategy paper (FY84) will allow a more precise definition of the main issues to be addressed.

IFC Activities

78. For many years, Brazil has been the most important area of activity for IFC. About 15% of IFC's portfolio is now invested in Brazil, a figure which rises to 20% if participations by commercial banks in IFC loans are included. Sectoral investment priorities have been, and continue to be: agriculture and agro-industry, energy, export-oriented and import-substituting manufacturing, and basic industries (including mining). In an effort to assist with the Government's policy to reduce the geographical concentration of industrial development, regional priorities have also been established, including the Northeast, Center-West and Amazon, and states such as Minas Gerais, Parana and Rio Grande do Sul. Over the next few years, given Brazil's ongoing adjustments to external financing constraints, all projects -- of whatever type and wherever located -- with a substantial foreign exchange impact will receive the highest priority by IFC. As many basically sound companies currently face difficult financial circumstances, IFC is also studying the possibilities for assisting with restructuring measures together with major Brazilian financial institutions.

EDI Activities

79. EDI has been active in Brazil since 1975, offering so far 16 courses, emphasizing project evaluation, jointly with the Training Center for Economic Development (CENDEC). This type of assistance is expected to continue in the future. More recently, it has begun to provide technical assistance to BNDES, and to the state development banks associated with the Second Development Banking Loan (FY83, US\$220 million). EDI has already participated informally in seminars on the economic evaluation of education and health projects provided by BNDES to its staff concerned with FINSOCIAL. It has also given a short course on project evaluation to BNDES staff in charge of administering the Second Development Banking Loan. During the coming months, EDI will organize a seminar on social development policies for BNDES/FINSOCIAL staff. It will also, in FY84, offer a course on the economic analysis of projects to the staff of state development banks. Selected graduates of this course will, in turn, form one or two training teams to give follow-up courses.

IDB Activities

80. The Inter-American Development Bank lending to Brazil for the last two years averaged about US\$250 million annually. The lending program for the next two years is expected to increase only moderately to about

US\$300 million annually and to emphasize lending for agricultural and rural development and energy, including power distribution. Close contacts are maintained with IDB regarding policy and program dialogue with Brazil.

Co-financing

81. To date, 10 co-financing operations, amounting to about US\$560 million, have been signed with private financial institutions. Most of these co-financed operations were in the electric power and industrial sectors where the Bank's project preparation and appraisal capabilities have proved valuable in putting together large and complex project and financing packages. In addition to these formal co-financing arrangements, Bank lending to institutions such as Brazil's National Development Bank and National Housing Bank has eased their access to increased internal resources. Similarly, the Bank's US\$304.5 million loan for the Carajas iron ore project has undoubtedly been a powerful factor in attracting a total of about US\$1.6 billion in additional external financing. For the time being, co-financing opportunities in Brazil would appear rather limited as the volume and terms of commercial bank financing available to Brazil are determined within the framework of the debt rescheduling package. Co-financing could become more important in future years, however, and the new co-financing instruments developed by the Bank could play a role in encouraging commercial banks to provide Brazil with additional lending on appropriate terms. Projects in the proposed lending program in support of agriculture, industry and energy appear particularly suitable for co-financing.

F. SUMMARY OF RECOMMENDATIONS

82. The principal recommendations of this paper are as follows:
- (a) The Bank should plan a basic lending program amounting to US\$6.5 billion in FY84-88 (para. 50);
 - (b) The lending program should be heavily oriented toward policy-oriented, sector- or program-type loans. Quick-disbursing sector loans should be concentrated in the early years of the program in order to help ease the foreign exchange constraint during the short-term adjustment process (paras. 34-35; 47);
 - (c) Major areas of expansion in the lending program, given their potential importance to Brazil's transition from stabilization to a resumption of growth and development, should be, agriculture, industry and energy (paras. 53-57; 69-72; 73-74); and
 - (d) Lending should be reduced or phased out over FY84-88 in those sectors where we have been active for a considerable time, and where the potential for further institution-

building and policy reforms is diminishing. Power distribution, urban water supply and sewerage, and railways are examples (para. 48).

Attachments

Population: 120.5 million (1981)
GDP per Capita (current \$): US\$2,220 (1981)
Area: 8,512,000 Km

- 34 -

BRAZIL - ACTUAL AND PROPOSED PROGRAM OF LENDING OPERATIONS THROUGH FY 83
(US\$ Million)

		Through 1977	Actual					Current FY83	Program					Total FY74-78	Total FY76-82	Total FY83-87	Total FY84-88
			FY78	FY79	FY80	FY81	FY82		FY84	FY85	FY86	FY87	FY88				
Ten agricultural projects	IBRD	356.7															
Integrated rural development	IBRD																
- Ceara I	IBRD		17.0														
- Ceara II	IBRD					56.0											
- Amazonas I	IBRD						26.4										
- Paranaíba	IBRD		24.0														
- Bahia I	IBRD		37.0														
- Bahia II	IBRD							67.8									
- Pernambuco I	IBRD			40.0													
- Maranhão	IBRD																
- Sergipe	IBRD			26.0													
- Piauí	IBRD																
- Northeast I	IBRD																
- Northeast II	IBRD																
- Northeast III	IBRD																
- Minas Gerais - Rural Development II	IBRD				63.0												
Lower Sao Francisco Development II	IBRD			28.0													
OLEVASF III	IBRD																
Agricultural Research II	IBRD						60.0										
Agricultural Research III	IBRD																
Agricultural Extension I	IBRD		100.0														
Agricultural Extension II	IBRD																
Agro-Industries III	IBRD							400.0									
Tree-Crops Development - Rubber	IBRD																
Agricultural Credit I	IBRD																
Agricultural Credit II	IBRD																
Northwest Development I - Agriculture	IBRD																
Northwest Development II	IBRD																
Northwest Development III	IBRD																
Agriculture Sector I	IBRD																
Agriculture Sector II	IBRD																
Agriculture Sector III	IBRD																
Supplementary Loan - Agriculture Projects /a	IBRD																
Land Resources/Titling	IBRD																
Irrigation Sector Loan	IBRD																
One Nutrition Project	IBRD	19.0															
Health Northwest Development	IBRD																
Primary Health Care - Sao Paulo	IBRD																
Primary Health Care - Northeast	IBRD																
Nutrition/Population	IBRD																
Three Education Projects	IBRD	63.9															
Education IV - Northeast	IBRD																
Education VI - Center West & North Basic Ed.	IBRD					32.0											
Education VII - Science & Technology	IBRD																
Education V - Technician Training	IBRD																
Education Sector Loan	IBRD																
Urban Transport I	IBRD		88.0														
Urban Transport III - Medium Sized Cities	IBRD						90.0										
Urban Development - Medium Cities	IBRD																
Integrated Urban Development II - Recife	IBRD																
Sites and Services I	IBRD																
N. E. Metropolitan Dev. Eng.	IBRD																
Parana Market Towns	IBRD																
Urban Development - Medium Sized Cities II	IBRD																
N. E. Metropolitan Development	IBRD																
Urban Sector Loan	IBRD																
Four Water Supply and Sewerage Projects	IBRD	113.0															
Water Supply and Sewerage - Minas Gerais III	IBRD																
Sewage Treatment - Sao Paulo I	IBRD		110.0														
Sewage Treatment - Sao Paulo II	IBRD																
Water Supply and Sewerage - Northeast I	IBRD																
Water Supply and Sewerage - Multistate	IBRD																
Water Supply and Sewerage - South	IBRD																
Water Supply and Sewerage - Sector I	IBRD																
Water Supply and Sewerage - Sector II	IBRD																
Rural Water Supply and Sanitation	IBRD																
Two DFC (BNI and BNIES)	IBRD	110															
DFC - Sao Paulo Industrial Pollution Control	IBRD																
DFC - Development Banking II	IBRD																
DFC - Development Banking III	IBRD																
Ten Industrial and mining projects	IBRD	615.0															
Aluminum - VALESUL	IBRD																
Iron Ore - Carajas	IBRD																
Petrochemicals - COPESUL	IBRD		85.0														
Industry - Fuel Alcohol I	IBRD																
Industrial Sector I	IBRD																
Industrial Sector II	IBRD																
Industrial Exports	IBRD																
Technology Development	IBRD																
Twenty nine power projects	IBRD	1,162.1															
Power XXX - distribution (South/Southeast)	IBRD		130.0														
Power XXXI - Distribution(South)(CEEE/COPEL II)	IBRD																
Power XXXII - distribution (CEEE)	IBRD																
Power XXXIII-systems coordination (ELETROBRAS)	IBRD																
Power XXXIV-transmission (ELETROSUL II)	IBRD																
Power XXXV - distribution (ELETROBRAS I)	IBRD																
Power XXXVI - distribution (ELETROBRAS II)	IBRD																
Power XXXVII - rural electrification I	IBRD																
Power XXXVIII - rural electrification II	IBRD																
Power XXXIX - rural electrification III	IBRD																
Energy - Unidentified I	IBRD																
Energy - Unidentified II	IBRD																
Energy - Unidentified III	IBRD																
Energy - Unidentified IV	IBRD																
Thirteen transport projects	IBRD	800.0															
Highways VI	IBRD		114.0														
Highways VII - rehabilitation and maintenance	IBRD																
Secondary and Feeder Roads II	IBRD																
Secondary and Feeder Roads III	IBRD																
Secondary and Feeder Roads IV	IBRD																
Highways Northwest Development	IBRD																
Railways - Urban transport	IBRD																
Lending Programs (in current US\$ million)	IBRD	3,239.7	705.0	674.0	695.0	844.0	722.1	1,457.5	1,400.0	1,480.0	1,450.0	1,070.0	1,100.0	2,296.5	3,640.1	6,857.5	6,500.0
N o.		72	9	9	7	8	8	7	8	10	10	7	8	34	41	42	43
Lending Programs (in constant FY83 US\$ million)	IBRD		912.0	827.0	816.7	953.7	771.5	1,457.5	1,310.9	1,305.1	1,206.3	839.9	814.2				
N o.			77.3	81.5	85.1	88.5	93.6	100.0	106.8	113.4	120.2	127.4	135.1				
Commitment deflator (83=100)/b																	

BRAZIL - RECOMMENDED FY84-88 LENDING PROGRAM
(US\$ Millions)

Reserve Project List

Structural Transformation

<u>FY85</u>			
Soil Erosion Control Program	60.0		
Railway	<u>100.0</u>		
	160.0	(1)	
<u>FY86</u>			
Forestry Sector	100.0		
Grande Carajas Technical Assistance	30.0	(3)	
Livestock - Hoof and Mouth Disease Control	<u>50.0</u>		
	180.0		
<u>FY87</u>			
Public Sector Management	30.0		
Inland Waterways - unidentified	100.0		
Oil Palm Development	<u>100.0</u>		
	230.0	(3)	
<u>FY88</u>			
Industrial Restructuring	250.0		
Grande Carajas Regional Development	<u>200.0</u>		
	450.0	(2)	
<u>TOTAL</u>	<u>1020.0</u>	(10)	

BRAZIL - RECOMMENDED FY84-88 LENDING PROGRAM
(US\$ Millions)

Reserve Project List

Poverty Alleviation

<u>FY84</u>			
Rural Telecommunications	100.0	(1)	
<u>FY85</u>			
Amazonas Small-Scale Cities	50.0	(1)	
Urban - Shelter	<u>100.0</u>		
	150.0	(2)	
<u>FY86</u>			
POLAMAZONIA	50.0	(1)	
<u>FY87</u>			
Northwest Development IV	70.0	(1)	
<u>FY88</u>			
Araguaia-Tocantins/Cerrados Development	100.0		
Water Supply and Sewerage-Sector III	<u>200.0</u>		
	300.0	(2)	
<u>TOTAL</u>	<u>670.0</u>	(7)	

BRAZIL - RECOMMENDED FY84-88 LENDING PROGRAM
(US\$ Millions)

Reserve Project List

Energy Development and Conservation Programs

<u>FY85</u>		
Gas Pipeline - Bolivia/Brazil	200.0	(1)
<u>FY86</u>		
Pro-Alcohol II	<u>200.0</u>	(1)
<u>TOTAL</u>	<u>400.0</u>	(2)

- 38 -

BRAZILIBRD Disbursements
(Millions of US Dollars)

	----- Fiscal Years -----				
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
1. Undisbursed balance at July <u>1/a</u>	1,470	1,913	2,296	3,035	3,253
2. Commitments during FY	705	674	695	844	722
3. Total Disbursements during FY	251	295	318	378	472
4. Disbursement rate 3:1=%	17.07	15.42	13.85	12.45	14.51
Comparators %					
(a) Disbursement rate for total of all other countries in the region	19.24	18.80	25.47	27.74	24.97
(b) Bankwide IBRD/IDA average disbursement rate	24.81	22.18	19.37	21.47	23.93
(c) Selected comparators average disbursement rates <u>/b</u>					
Argentina	7.05	7.76	12.66	13.61	19.20
Mexico	21.65	23.35	37.71	39.91	23.82
Turkey	27.95	42.05	23.05	33.26	31.94

/a Undisbursed balance includes credits approved but unsigned, and signed but not effective.

/b Excludes exchange adjustments.

BRAZIL - SUMMARY OF BANK GROUP AND OTHER OFFICIAL LENDING

ATTACHMENT 1 B

	Through 1977	FY78	FY79	FY80	FY81	FY82	Current FY83	FY84	FY85	FY86	FY87	FY88	FY74-78	FY79-82	FY83-87	FY84-88
SECTORAL DISTRIBUTION OF BANK GROUPS COMMITMENTS (%)																
Agriculture and Rural Development	11.0	25.3	14.0	9.1	17.2	22.5	32.1	29.8	43.3	31.0	32.7	27.3	16.5	17.7	33.9	33.2
Energy	-	-	-	-	-	-	-	-	16.9	17.3	23.4	22.7	-	-	10.9	15.4
Industry and Development Banking	22.4	12.1	14.5	8.3	29.6	-	36.0	25.0	13.5	17.3	23.4	9.1	22.7	13.5	23.0	17.7
Power	35.9	18.4	16.2	16.4	21.2	25.3	-	35.7	-	10.3	-	13.6	22.6	19.6	9.5	12.3
Population, Health, and Nutrition	.4	-	-	-	-	-	-	2.9	5.4	-	4.7	-	.8	.3	2.5	2.6
Transportation	24.7	28.6	26.7	22.9	-	33.2	10.6	-	-	13.8	-	-	23.1	17.1	5.1	3.1
Urban Development	-	-	13.8	-	10.7	17.2	.6	3.7	10.1	-	6.5	18.2	3.8	12.8	4.1	7.3
Water Supply and Sewerage	3.5	15.6	14.8	38.7	21.3	-	20.7	-	-	10.3	-	9.1	8.1	18.1	6.6	3.8
Education	1.9	-	-	4.6	-	-	-	2.9	10.8	-	9.3	-	2.4	.9	4.4	4.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
BANK GROUP DISBURSEMENTS (US\$)																
IBRD O/S including undisbursed /a	2,931.5/b	3,721.9/c	4,401.9/d	4,961.3/e	5,262.3/f	5,651.7/g	6,844.8	7,918.1	8,985.4	9,892.9	10,320.8	10,703.8	-	5,651.7/h	10,490.3	10,810.3
excluding undisbursed /a	1,462.1/b	1,804.5/c	2,105.1/d	2,384.5/e	2,227.3/f	2,398.5/g	2,810.8	3,420.6	4,171.1	4,890.3	5,535.5	6,079.1	-	2,398.5/h	5,591.7	6,171.2
IBRD gross disbursements	1,718.3	251.6	294.9	318.0	377.6	471.5	676.9	936.4	1,163.0	1,261.8	1,287.3	1,260.6	1,193.6	1,713.6	5,393.0	6,805.5
less: amortization	387.3	94.3	72.6	88.4	111.8	179.0	252.0	326.6	412.6	542.5	645.2	717.0	266.5	546.1	2,196.6	2,674.6
equals net disbursements	1,331.0	157.3	222.3	229.6	265.8	292.5	424.9	609.8	750.4	719.2	642.0	543.5	927.1	1,167.5	3,196.2	3,410.7
less: interest and charges	521.6	121.7	151.6	169.5	185.3	192.4	210.8	290.7	362.9	435.0	496.4	548.8	417.3	820.5	1,870.3	2,299.0
equals: net transfer	809.4	35.6	70.7	60.1	80.5	100.1	214.1	319.1	387.5	284.2	145.6	-5.3	509.8	347.0	1,325.9	1,111.7
IBRD/IDA gross disbursements	1,718.3	251.6	294.9	318.0	377.6	471.5	617.0	943.6	1,186.7	1,311.2	1,334.5	1,309.5	1,193.6	1,713.6	5,393.0	6,805.5
less: amortization	387.3	94.3	72.6	88.4	111.8	179.0	252.0	326.6	412.6	546.8	638.6	730.0	266.5	546.1	2,196.6	2,674.6
equals: net disbursements	1,331.0	157.3	222.3	229.6	265.8	292.5	365.0	617.0	774.0	764.4	675.8	579.5	927.1	1,167.5	3,196.2	3,410.7
less: interest and charges	521.6	121.7	151.6	169.5	185.3	192.4	202.7	290.2	368.3	459.5	549.6	631.4	417.3	820.5	1,870.3	2,299.0
equals: net transfer	809.4	35.6	70.7	60.1	80.5	100.1	162.3	326.8	405.7	304.9	126.2	-51.9	509.8	347.0	1,325.9	1,111.7
IBRD EXPOSURE (%)																
IBRD disbursement/total gross disbursements	3.2	1.9	2.5	3.2	2.6	3.2	3.4	4.5	3.2	1.7	0.9	0.7				
IBRD DOD/total DOD	4.1	3.5	3.6	3.7	3.6	3.8	4.1	4.8	5.7	6.4	6.9	7.4				
IBRD debt service/total debt service	3.7	2.7	2.1	2.1	2.2	2.6	3.2	3.7	3.7	3.7	4.1	4.2				
COMMITMENTS FROM OFFICIAL SOURCES (US\$)																
Grants and Concessional Loans	54	84	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-Concessional Loans	1,121	1,505	1,356	1,851	2,653	1,465	1,878	1,775	1,775	1,675	1,550	1,550				
Total bilateral	433	538	486	762	1,339	100	100	-	-	-	-	-				
Total multilateral	688	967	870	1,089	1,314	1,365	1,778	1,775	1,775	1,675	1,550	1,550				
IBRD	319	688	674	820	1,039	1,080	1,500	1,500	1,500	1,400	1,300	1,300				
Regional Development	-	-	-	-	-	-	-	-	-	-	-	-				
Banking	369	279	196	269	275	285	278	275	275	275	250	250				
Other	-	-	-	-	-	-	-	-	-	-	-	-				
TOTAL COMMITMENTS	1,175	1,589	1,356	1,851	2,653	1,465	1,878	1,775	1,775	1,675	1,550	1,550				

/a As of the end of the fiscal year

/b The exchange adjustment of \$131.1 million as of June 30, 1977 has been included in these figures.

/c - - - - - \$316.2 - - - - - , 1978 - - - - - with an increase of 185.1 million since FY77

/d - - - - - \$394.5 - - - - - , 1979 - - - - - 78.3 million since FY78

/e - - - - - \$444.3 - - - - - , 1980 - - - - - 49.8 million since FY79

/f - - - - - \$ 21.3 - - - - - , 1981 - - - - - with a decrease of 423.0 million since FY80

/g - - - - - \$-100.0 - - - - - , 1982 - - - - - 121.3 million since FY81

Note: All data in this table reflect O/S amounts and transactions of loans sold to Third Parties.

June 1983 *

BRAZIL	- SOCIAL INDICATORS DATA SHEET				
	REFERENCE GROUPS (WEIGHTED AVERAGES) /a				
	1960/ ^b	1970/ ^b	MOST RECENT ESTIMATE / ^b	MIDDLE INCOME LAT. AMERICA & CARIB	(MOST RECENT ESTIMATE) / ^b MIDDLE INCOME EUROPE
AREA (THOUSAND SQ. KM)					
TOTAL	8512.0	8512.0	8512.0	.	.
AGRICULTURAL	1621.3	1981.2	2209.5	.	.
GNP PER CAPITA (US\$)	330.0	610.0	2220.0	2088.2	2453.6
ENERGY CONSUMPTION PER CAPITA (KILOGRAMS OF COAL EQUIVALENT)	385.0	577.0	1102.0	1407.6	1580.8
POPULATION AND VITAL STATISTICS					
POPULATION, MID-YEAR (THOUSANDS)	72594.0	95847.0	120507.0	.	.
URBAN POPULATION (% OF TOTAL)	46.1	55.9	68.2	65.9	47.8
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			176.7	.	.
STATIONARY POPULATION (MILL)			299.0	.	.
YEAR STATIONARY POP. REACHED			2110	.	.
POPULATION DENSITY					
PER SQ. KM.	8.5	11.3	13.9	35.6	82.0
PER SQ. KM. AGRI. LAND	44.8	48.4	53.6	93.2	157.2
POPULATION AGE STRUCTURE (%)					
0-14 YRS	43.6	42.7	41.1	40.1	31.9
15-64 YRS	53.8	54.3	55.4	55.8	60.9
65 AND ABOVE	2.6	3.1	3.5	4.1	7.2
POPULATION GROWTH RATE (%)					
TOTAL	3.1	2.8	2.1	2.3	1.6
URBAN	5.5	4.7	3.9	3.7	3.4
CRUDE BIRTH RATE (PER THOUS)	42.7	35.0	30.5	31.5	25.0
CRUDE DEATH RATE (PER THOUS)	12.9	10.3	8.2	8.1	9.1
GROSS REPRODUCTION RATE	3.0	2.4	1.9	2.0	1.7
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	111.0	203.6/ ^c	.	.
USERS (% OF MARRIED WOMEN)	..	..	..	..	..
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	89.0	102.0	128.0	113.0	108.4
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	106.0	104.0	109.0	111.3	129.6
PROTEINS (GRAMS PER DAY)	64.0	62.0	61.0	67.9	92.3
OF WHICH ANIMAL AND PULSE	35.0	34.0	36.0/ ^d	34.1	34.6
CHILD (AGES 1-4) DEATH RATE	19.4	12.5	6.9	5.3	10.4
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	54.7	58.9	63.6	64.6	67.2
INFANT MORT. RATE (PER THOUS)	118.2	98.6	75.4	62.6	71.4
ACCESS TO SAFE WATER (%POP)					
TOTAL	..	55.0	77.1/ ^e	64.8	..
URBAN	..	78.0	88.8/ ^e	77.8	..
RURAL	..	28.0	56.8/ ^e	44.3	..
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	58.0	64.8/ ^e	54.6	..
URBAN	..	85.0	83.7/ ^e	69.8	..
RURAL	..	24.0	31.7/ ^e	29.8	..
POPULATION PER PHYSICIAN	2670.0	2130.0	1700.0/ ^f	1776.0	1094.8
POP. PER NURSING PERSON	2810.0	1120.0	820.0/ ^f	1012.2	762.5
POP. PER HOSPITAL BED					
TOTAL	310.0	270.0	250.0/ ^e	477.0	334.0
URBAN	260.0	320.0	..	667.5	216.0
RURAL	..	..	..	1921.6	..
ADMISSIONS PER HOSPITAL BED	..	18.4	..	27.2	20.0
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	5.1	4.8	4.9/ ^e	..	..
URBAN	..	4.6	4.7/ ^e	..	..
RURAL	..	5.2	5.3/ ^e	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	..	1.1	..	..	..
URBAN	..	1.0	..	..	..
RURAL	..	1.2	..	..	..
ACCESS TO ELECT. (% OF DWELLINGS)					
TOTAL	38.7	47.6	67.4	..	..
URBAN	..	75.6	88.5	..	..
RURAL	..	8.4	20.6	..	..

BRAZIL	- SOCIAL INDICATORS DATA SHEET				
	REFERENCE GROUPS (WEIGHTED AVERAGES) /a				
	MOST RECENT ESTIMATE /b			MIDDLE INCOME LAT. AMERICA & CARIB	MIDDLE INCOME EUROPE
1960 /b	1970 /b				
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	95.0	84.0	93.0/g	105.0	102.2
MALE	97.0	84.0	93.0/g	106.3	107.2
FEMALE	93.0	84.0	93.0/g	103.6	97.9
SECONDARY: TOTAL	11.0	26.0	32.0/g,h	40.0	56.5
MALE	11.0	26.0	29.0/g,h	38.6	63.4
FEMALE	10.0	27.0	35.0/g,h	41.2	48.9
VOCATIONAL (% OF SECONDARY)	18.6	16.7	59.2/g,h	34.0	22.4
PUPIL-TEACHER RATIO					
PRIMARY	33.0	28.0	26.0	30.7	24.7
SECONDARY	13.0	13.0	14.0/h	16.7	22.1
ADULT LITERACY RATE (%)	61.0	66.2	76.0	79.5	69.7
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	7.6	16.6	50.1	45.6	52.9
RADIO RECEIVERS/THOUSAND POP	65.4	108.4	169.3	228.2	165.5
TV RECEIVERS/THOUSAND POP	16.5	44.3	122.7	108.3	124.2
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	39.1	35.6	44.6/h	64.1	96.3
CINEMA ANNUAL ATTENDANCE/CAPITA	4.4	2.0	1.9/h	2.9	2.9
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	23326.0	30411.0	35254.0	.	.
FEMALE (PERCENT)	17.2	20.1	28.5	24.8	34.5
AGRICULTURE (PERCENT)	51.9	45.6	29.9	31.3	40.7
INDUSTRY (PERCENT)	14.8	18.3	24.4	23.9	23.4
PARTICIPATION RATE (PERCENT)					
TOTAL	32.1	31.7	29.3	31.3	42.0
MALE	52.7	50.3	50.9	49.8	55.2
FEMALE	11.2	12.8	14.1	14.8	29.1
ECONOMIC DEPENDENCY RATIO	1.4	1.4	1.5	1.4	0.9
INCOME DISTRIBUTION					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5% OF HOUSEHOLDS	..	..	..	..	..
HIGHEST 20% OF HOUSEHOLDS	60.0	63.5	62.0/c	..	..
LOWEST 20% OF HOUSEHOLDS	3.8	3.2	2.8/c	..	..
LOWEST 40% OF HOUSEHOLDS	10.8	9.0	9.4/c	..	..
POVERTY TARGET GROUPS					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)					
URBAN	..	..	..	289.8	..
RURAL	..	..	150.0/c	184.5	..
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)					
URBAN	..	..	465.0/d	519.8	..
RURAL	..	..	332.07d	372.1	409.0
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)					
URBAN	..	..	..	..	..
RURAL	..	..	..	..	..

.. NOT AVAILABLE
. NOT APPLICABLE

NOTES

- /a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.
- /b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1979 and 1981.
- /c 1975; /d 1977; /e 1976; /f 1974; /g Beginning 1973 primary and secondary education cover age groups 7-14 and 15-17 instead of 7-10 and 11-17 in earlier years; therefore most recent estimates are not comparable with earlier data; /h 1978.

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups.

AREA (thousand sq. km.)

Total - Total surface area comprising land area and inland waters; 1979 data.
Agricultural - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1979 data.

GNP PER CAPITA (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1978-80 basis); 1960, 1970, and 1980 data.

ENERGY CONSUMPTION PER CAPITA - Annual consumption of commercial energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita; 1960, 1970, and 1979 data.

POPULATION AND VITAL STATISTICS

Total Population, Mid-Year (thousands) - As of July 1; 1960, 1970, and 1980 data.

Urban Population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1980 data.

Population Projections

Population in year 2000 - Current population projections are based on 1980 total population by age and sex and their mortality and fertility rates. Projection parameters for mortality rates comprise of three levels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rate also have three levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of these nine combinations of mortality and fertility trends for projection purposes.

Stationary population - In a stationary population there is no growth since the birth rate is equal to the death rate, and also the age structure remains constant. This is achieved only after fertility rates decline to the replacement level of unit net reproduction rate, when each generation of women replaces itself exactly. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

Year stationary population is reached - The year when stationary population size will be reached.

Population Density

Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970 and 1979 data.

Per sq. km. agricultural land - Computed as above for agricultural land only; 1960, 1970 and 1979 data.

Population Age Structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population; 1960, 1970, and 1980 data.

Population Growth Rate (percent) - total - Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-80.

Population Growth Rate (percent) - urban - Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-80.

Crude Birth Rate (per thousand) - Annual live births per thousand of mid-year population; 1960, 1970, and 1980 data.

Crude Death Rate (per thousand) - Annual deaths per thousand of mid-year population; 1960, 1970, and 1980 data.

Gross Reproduction Rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1980.

Family Planning - Acceptors (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family Planning - Users (percent of married women) - Percentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION

Index of Food Production per Capita (1969=71=100) - Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1980 data.

Per capita supply of calories (percent of requirements) - Computed from energy equivalent of total supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961-65, 1970 and 1977 data.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey; 1961-65, 1970 and 1977 data.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.
Child (ages 1-4) Death Rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group; for most developing countries data derived from life tables; 1960, 1970 and 1980 data.

HEALTH

Life Expectancy at Birth (years) - Average number of years of life remaining at birth; 1960, 1970 and 1980 data.

Infant Mortality Rate (per thousand) - Annual deaths of infants under one year of age per thousand live births; 1960, 1970 and 1980 data.

Access to Safe Water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to Excreta Disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per Physician - Population divided by number of practicing physicians qualified for medical school at university level.

Population per Nursing Person - Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.

Population per Hospital Bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally curative care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities. For statistical purposes urban hospitals include WHO's principal/general hospitals, and rural hospitals, local or rural hospitals and medical and maternity centers. Specialized hospitals are included only under total.
Admissions per Hospital Bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average Size of Household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.

Average number of persons per room - total, urban, and rural - average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied dwellings.

Access to Electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

Adjusted Enrollment Ratios

Primary school - total, male and female - Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations; normally includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.

Secondary school - total, male and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instruction for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Enrollment ratios - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

Passenger Cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Radio Receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV Receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper Circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema Attendance per Capita per Year - Based on the number of tickets sold during the year, including admissions to drive-in cinema and mobile units.

LABOR FORCE

Total Labor Force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1980 data.

Female (percent) - Female labor force as percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1980 data.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1980 data.

Participation Rate (percent) - total, male, and female - Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1980 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.

Economic Dependency Ratio - Ratio of population under 15 and 65 and over to the total labor force.

INCOME DISTRIBUTION

Percentage of Private Income (both in cash and kind) - Received by richest 5 percent, richest 20 percent, poorest 20 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.

Estimated Absolute Poverty Income Level (US\$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated Relative Poverty Income Level (US\$ per capita) - urban and rural - Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.

Estimated Population Below Absolute Poverty Income Level (percent) - urban and rural - Percent of population (urban and rural) who are "absolute poor".

BRAZIL - ECONOMIC INDICATORS

Attachment 3A

Population: 119.1 million mid-1980
 GNP Per Capita: US\$ 2050 (1980)

Indicators	Amount (million US\$ at Current Prices) 1980	Annual Growth Rates (%)													
		Actual									Projected				
		1975	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988		
National Accounts															
Gross Domestic Product /a	248,592	5.6	4.8	6.7	7.8	-3.5	1.0	-3.5	3.5	5.0	5.5	5.5	5.5		
Agriculture	27,432	2.7	-4.9	7.1	4.8	6.8	1.0	3.0	4.2	5.2	5.2	5.9	5.9		
Industry	71,671	5.3	3.0	5.2	12.4	-8.4	0.0	-14.0	3.5	5.0	5.5	5.5	5.5		
Services	111,554	10.3	10.1	10.7	4.6	-1.4	1.3	2.5	1.2	5.4	5.6	5.3	5.4		
Consumption	202,019	8.4	7.6	7.7	4.1	-6.0	0.0	-5.3	3.0	4.8	5.4	5.4	5.2		
Gross Investment /b	52,526	-7.0	-4.1	1.3	15.2	-4.1	1.0	-3.5	3.5	5.0	5.5	5.5	5.5		
Exports of GNFS /c	21,932	12.4	3.4	5.0	20.1	37.7	-1.8	5.5	5.8	5.6	5.9	6.0	7.0		
Imports of GNFS /c	27,884	-9.6	5.4	0.6	-4.8	10.9	-15.6	-13.1	1.6	4.3	5.3	5.3	5.3		
Gross National Savings	40,109	-6.4	-15.7	-4.5	15.2	0.2	-3.9	4.3	8.1	8.4	8.0	7.7	7.7		
Prices															
GDP deflator		305	892	1,399	2,724	5,697	11,109	11,831	12,896	13,863	14,695	15,576	16,511		
Exchange Rate (average)		8.1	18.1	27.0	52.7	93.1	179.5								
Share of GDP at Market Prices (%) (At Current Prices)															
		1975	1980	1985 /d	1988 /d	Average Annual Increase (%) (At Constant 1970 Prices)									
						1975-80	1980-85	1985-88							
Gross Domestic Product		100.0	100.0	100.0	100.0	6.5	0.3	5.5							
Agriculture		9.2	11.0	13.1	13.2	9.5	3.7	5.7							
Industry		31.1	28.8	24.1	24.1	4.6	-3.6	5.5							
Services		43.6	44.8	47.9	47.8	7.8	1.8	5.4							
Consumption		76.6	81.3	72.8	72.5	7.7	-0.9	5.4							
Gross Investment /b		27.3	21.1	21.0	21.0	2.8	0.2	5.4							
Exports GNFS		7.5	8.8	-10.8	-11.1	6.4	7.9	6.3							
Imports GNFS		11.4	11.2	4.6	4.6	-1.3	-4.9	5.3							
Gross National Savings		22.1	16.1	23.9	25.0	-1.6	3.2	7.7							
As % of GDP															
		1977				1978	1979	1980							
Public Finance															
Current Revenues						23.4	22.5	22.0	20.8						
Current expenditures						18.8	19.7	19.4	18.0						
Surplus (+) or Deficit (-)						4.6	2.8	2.6	2.8						
Capital Expenditure						3.6	3.1	2.4	2.2						
Foreign Financing						2.3	3.4	4.6	5.2						
Other Indicators															
		1975-80	1980-85	1985-88											
GNP Growth Rate (%)		7.0	0.2	5.8											
GNP Per Capita Growth Rate (%)		3.0	-2.7	3.2											
Energy Consumption Growth Rate (%)		6.5	-	-											
ICOR		3.3	46.1	3.8											
Marginal Savings Rate		0.0	-24.3	0.3											
Import Elasticity		-0.2	-17.3	0.9											

/a At market prices; components are expressed at factor cost and will not add due to exclusion of net indirect taxes and subsidies.

/b 1975-79 estimates are for gross investment; estimates for subsequent years are for fixed investment, with changes in the stock included in consumption.

/c 1975-80 estimates were taken from the Brazilian National Accounts Data.

/d Projected years at constant prices.

BRAZIL - External Trade /b

Indicator	Amount US\$ million at Current Prices (1980)	Annual Growth Rates (%) - (at constant 1970 prices)											
		Actual						Projected					
		1975	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
External Trade													
Merchandise Exports	20,132	23.9	4.4	4.4	21.2	44.2	-0.6	5.7	5.8	5.6	5.9	6.0	7.0
Primary	9,020	30.7	-2.3	-2.9	20.4	55.1	-6.4	7.5	5.5	5.4	4.5	4.6	4.6
Manufacturer /a	8,408	0.0	18.7	17.5	22.5	40.6	7.1	4.5	6.0	6.0	8.0	8.0	10.0
Others	2,704					3.3	-2.4	0.0	6.9	3.9	3.9	4.0	3.9
Merchandise Imports	22,955	-15.0	2.5	7.2	1.4	-9.4	-20.3	-8.9	1.6	4.3	5.3	5.3	5.3
Food & Consumer Goods	2,555	8.2	52.8	17.3	13.2	-54.8	-1.2	-8.0	1.6	3.7	4.3	4.3	4.0
Petroleum	10,200	-3.8	5.8	12.1	-9.8	-4.9	-2.6	-14.7	-9.4	0.0	4.9	4.9	5.0
Machinery and equipment	3,538	9.8	0.0	-8.0	6.4	-6.9	-32.2	-3.5	3.5	5.0	5.5	5.5	5.5
Others	6,662	-30.6	-5.3	13.9	-2.2	3.8	-20.3	-10.3	3.5	5.7	5.5	5.5	5.5
Prices													
Export Price Index		176	228	266	290	252	220	228	250	273	292	313	334
Import Price Index		242	317	389	431	474	522	503	502	522	549	577	606
Terms of Trade Index		72	71	68	67	53	42	45	50	52	53	54	55

	Composition of Merchandise Trade (%) (at current Prices)				Average Annual Increase (%) (at constant 1970 prices)		
	1975	1980	1985	1988	1975-80	1980-85	1985-88
	Exports	100.0	100.0	100.0	100.0	5.8	9.0	6.3
Primary	62.7	44.8	44.7	43.4	1.1	9.0	4.6
Manufactures	27.5	41.8	48.8	50.7	18.2 /a	10.2	8.6
Others	9.8	13.4	6.5	5.9		2.0	3.9
Imports	100.0	100.0	100.0	100.0	-1.4	-7.7	5.3
Food and Consumer Goods	9.8	11.1	6.5	6.4	17.5	-12.1	4.2
Petroleum	25.4	44.4	36.8	34.5	4.3	-7.3	4.9
Machinery and Equipment	26.5	15.4	22.9	23.6	-7.5	-8.9	5.5
Others	38.3	29.1	33.8	35.5	-1.9	-5.8	5.5

Direction of Trade	Share of Trade with Industrial Countries (%)		Share of trade with Developing Countries (%)		Share of trade with capital Surplus oil Exporters (%)	
	1975	1980	1975	1980	1975	1980
Exports	60.2	57.3	23.5	28.5	0.8	1.1
Imports	67.3	46.6	8.7	16.0	13.2	14.1

/a 1975-80 annual growth rates are for manufacturers and others.

/b The export and import projections are calculated as follows:

July 1983

Export Projections

Separate projections were made for the major agricultural commodities—coffee, sugar, soybean products, and cocoa—as well as for iron ore and manufactured, semi-processed, and other goods. Prices for agricultural commodities reflect a continuation of the depressed commodity prices of the late 1970's with some recovery by 1985. The volume increase in agricultural exports is also expected to be relatively modest, with coffee, sugar, and cocoa growing at less than 3% per year for most of the period and soybean meal growing at 7-8%.

The growth of manufactured exports is expected to rise from 4.5% in 1983 to 10% by 1988, a more moderate increase than that of the 1970's but one that reflects the slow recovery of Brazil's export markets and the country's larger manufactured export base. Semi-processed goods, which consist of agricultural-based and iron products are expected to follow the growth of agricultural commodities rather than manufactured products. Prices for non-primary commodities are assumed to follow the international price index (IPI).

Import Projections

All import commodity groups except petroleum are endogenously determined. Growth of food and other consumer goods is linked to growth in private consumption; metals and metal products, to GDP growth; fertilizers, to agricultural sector growth; other intermediate goods, to industrial sector growth; and capital goods, to fixed investment. Petroleum imports are expected to drop from about 840,000 barrels per day in 1982 to 650,000 bpd in 1985, with subsequent increases to about 750,000 bpd by 1988. This projection is the difference between projected consumption less projected domestic oil production. Total consumption is expected to remain at 1982 levels (about 1,100,000 bpd) until 1985, because of modest economic recuperation and conservation; beginning in 1986, growth in consumption will follow GDP growth. Domestic production is projected to increase from 260,000 bpd in 1982 to some 520,000 bpd in 1988.

The import price indices for food, other intermediate goods, and capital goods move with the IPI—or about 6-7% per year. Metal prices move with EPD's metals and minerals index and fertilizer prices, with the potash price index—both of which increase less than the IPI.

Oil prices have become extremely difficult to predict in recent years. The base case projections assume that the price in nominal terms will be almost stable through 1988—US\$30/barrel in 1983 versus US\$32/barrel in 1988. This projection takes into consideration the increasing problems in controlling OPEC oil production and the emergence of major producers outside the OPEC cartel, as well as the fact that international oil production is now sufficiently below capacity to satisfy increasing demand without sharp increases in price. Demand is expected to increase gradually, due to the slow economic recovery, efforts at conservation, and the ability of oil consuming nations to draw down their oil inventories to stabilize demand.

BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT
(US\$ Millions at Current Prices)

Population: 119 million (1980)
GNP Per Capita: US\$2,050 (1980)

	Actual						Projected					
	1975	1978	1979	1980	1981	1982 /d	1983	1984	1985	1986	1987	1988
Net Exports of goods and services	-6,702	-6,086	-10,039	-12,630	-11,192	-14,736	-9,380	-7,230	-5,513	-4,030	-2,244	116
Exports of goods	8,670	12,659	15,244	20,132	23,245	20,164	22,046	25,661	29,585	33,563	38,104	43,323
Imports of goods	12,210	13,683	18,084	22,961	22,091	19,397	17,023	17,277	18,724	20,725	22,941	25,396
Net factor income/ ^a (of which interest payments)	1,733 (2,042)	-3,257 (3,127)	-4,821 (4,750)	-6,621 (6,331)	-9,510 (7,778)	-12,303 (8,538)	-12,304 (9,112)	-13,389 (10,144)	-13,915 (10,483)	-14,144 (10,495)	-14,390 (10,545)	-14,708 (10,684)
Net non-factor services	-1,429	-1,805	-2,378	-3,180	-2,836	-3,200	-2,099	-2,225	-2,459	-2,724	-3,017	-3,303
Net Transfers	13	70	10	168	197	197	197	197	197	197	197	197
Current Account Balance	-6,689	-6,016	-10,029	-12,462	-10,995	-14,539	-9,183	-7,033	-5,316	-3,833	-2,047	313
Direct Private Investment	892	1,071	1,491	1,146	1,585	1,100	1,500	1,533	1,630	1,720	1,814	1,914
MSLT Loans (Net)	3,961	8,845	5,361	4,688	7,968	6,513	10,510	5,736	3,632	4,188	4,743	3,009
Official	na	na	na	na	527	774	979	1,020	941	631	413	338
Private	na	na	na	na	7,441	5,739	9,531	4,716	2,691	3,557	4,330	2,671
Brazilian Loans Abroad (Net)	-190	-357	-608	417	-1,237	-1,085	-1,207	-1,395	-1,589	-1,820	-2,083	-2,429
Other Capital (including errors and omissions)	798	756	1,093	2,825	3,366	4,011	-770	2,043	2,149	400	-1,700	-2,000
International Reserves / ^a of which : Gold	5,719 56	12,991 68	10,299 722	6,913 1,143	7,600 905	3,600	4,450	5,354	5,860	6,515	7,243	8,050
Reserves as months of imports (GNFS)	3.3	8.5	5.3	3.0	3.4	1.8	2.5	2.9	2.9	2.9	2.9	2.9
External Capital and Debt												
Gross Disbursements	6,912	14,927	12,181	10,597	15,056	15,185	18,637	13,860	14,974	19,346	21,678	22,192
Official grants	-	-	-	-	-	-	-	-	-	-	-	-
Concessional loans	102	59	48	19	37	137	186	209	147	40	20	13
DAC	87	44	21	16	15	109	169	202	146	40	20	13
OPEC	-	2	12	-	20	28	17	7	1	-	-	-
IDA	-	-	-	-	-	-	-	-	-	-	-	-
Other	15	13	15	3	2	-	-	-	-	-	-	-
Non-concessional loans	6,810	14,868	12,133	10,578	15,021	15,048	18,282	13,651	14,827	19,306	21,658	22,179
Official export credits	311	419	359	615	471	732	618	393	191	59	8	-
IBRD	250	275	302	343	387	562	946	1,234	1,361	1,422	1,396	1,377
Other multilateral	119	137	206	188	187	237	268	289	312	284	270	275
Private	6,130	14,037	11,266	9,432	13,976	13,517	16,450	11,735	12,963	17,541	19,984	20,529
External Debt												
Debt outstanding and disbursed	23,441	46,466	51,483	55,756	63,724	70,237	80,747	86,483	90,116	94,304	99,046	102,055
Public	13,849	30,314	35,619	39,151	44,529	54,891	68,794	77,132	83,081	89,460	96,201	101,038
Private non-guaranteed	9,592	16,152	15,864	16,605	19,195	15,346	11,953	9,351	7,035	4,844	2,845	1,017
Undisbursed Debt	3,761	10,085	12,430	12,413	14,287	13,601	12,716	11,488	10,778	10,261	10,537	11,039
Debt Service												
Total Service Payments/ ^b	3,670	8,319	11,257	13,123	14,869	17,209	17,071	18,268	21,825	25,653	27,480	29,867
Interest (Net)	1,498	2,694	4,104	6,330	7,778	8,538	9,112	10,144	10,483	10,495	10,545	10,684
Payments as % exports	38.8	59.3	67.4	60.0	58.3	77.6	70.4	64.8	67.2	69.7	65.8	62.7
Average Interest Rate on New Guaranteed Loans (%) /^c												
Official	8.7	9.9	11.2	na	9.3	11.6	10.4	10.6	10.0	10.0	10.0	10.0
Private source	8.0	7.5	8.3	-	na	na	na	na	na	na	na	na
Average Maturity of New Guaranteed Loans (Years) /^c												
Official	8.9	10.2	11.6	-	na	na	na	na	na	na	na	na
Private source	9.0	10.0	11.5	na	8.0	8.6	8.7	9.1	8.9	8.6	8.5	8.5
Official	18.4	14.4	14.1	-	na	na	na	na	na	na	na	na
Private source	6.9	9.4	11.1	-	na	na	na	na	na	na	na	na

AS % OF DEBT OUTSTANDING
December 1981

Maturity Structure of Public Debt Outstanding

Maturities due within 5 years 50.3
Maturities due within 10 years 96.3

Interest Structure of Debt Outstanding

Interest due within the first year na

na - Not available.

/a Does not include gold and dollar valuation adjustment.

/b Net of interest on foreign exchange reserves, short term interest and interest and amortization.

/c Public debt only through 1979.

/d Preliminary.

April 27, 1983*

REVISED ECONOMIC AND SECTOR WORK PROGRAM FOR BRAZIL

FY84-85

The approved FY83-85 Economic and Sector Work Program for Brazil, contained in the "LAC Economic and Sector Work Program Indicative Statement, FY84," was developed before the preparation of the CPP. Therefore, the ESW Program for FY84-85 has been reoriented to reflect more clearly the priorities of the lending strategy defined in the CPP.

The principal changes are as follows.^{1/} The work on industry and agriculture is focused more closely on increasing the efficiency and export capability in the two sectors, and staff resources have been added for the agricultural analyses, in order to lay the groundwork for the Bank's policy dialogue and planned series of sector loans for industrial and agricultural development. More attention is given to developing Bank sector strategies within the priorities established in the CPP, so that the major issues, constraints, and appropriate role of the Bank in future lending can be identified. Strategies for energy, industry, and population have been added to existing plans for developing education, transport, health, and urban sector strategies. Studies on poverty alleviation, employment, and the social sectors continue to have high priority. More resources will be devoted to analysis of population and health sector issues, as a basis for future Bank loans for poverty alleviation and development of human capital. Finally, because of the complexity of the Brazilian economy, the importance of the policy dialogue, and the size and coverage of the Bank's lending program, two basic analytic tools are being developed: (i) a macro-economic model to estimate the effect of policy changes and exogenous factors on economic growth, inflation, and the balance of payments, and (ii) the development of uniform project evaluation criteria, with procedures for estimating and periodically updating the shadow exchange rate and shadow prices of capital and labor. To accommodate these changes, planned studies on social welfare funds, energy substituting crops, and housing finance have been dropped.^{2/}

^{1/} In the attachment, only the projects for FY84-85 are listed. FY83 staff resources are included only when the study continues into FY84. The studies are listed by topics, not by whether the study is to be managed within the LAC region or not.

^{2/} The latter topic would be covered in a broader, regional review to be carried out by OPS.

Steps have already been taken to increase the impact of our ESW on medium- and longer-term policy making. Recent actions include the publication in red cover and wide distribution of the agricultural sector and industrial trade policies reports; the translation into Portuguese of the latter report and the report on Northeast rural development (in progress); and the establishment of joint Bank-Government teams for analysis of industrial trade and agricultural policies. The Bank will explore further the opportunities for collaborative ESW between the Bank and Government agencies. Such joint efforts would assist with the institution-building process in Brazil and help build a consensus within the Government on certain longer-term issues. Also, the Bank will continue to seek a wider dissemination of its ESW within Brazil. This would be partially achieved by translating most, if not all, economic reports. It would also be fostered by the promotion of formal or informal presentations of Bank reports to representatives of both the public and private sectors.

The Bank also plans an active collaboration with the Brazilian Government on medium-term planning. The Government recognizes that its current focus on short-term problems is prejudicial to its longer-term growth, structural adjustment, and debt management objectives. In recent discussions of the draft economic report, the Minister of Planning expressed a desire for closer technical cooperation between his staff and that of the Bank in developing a framework for medium-term planning. The Bank expects not only to offer direct assistance in improving the national accounts, developing a macro-model useful for macro-projections and policy simulations, and utilizing project evaluation criteria on a more systematic basis, but also to make available cross-country experience in planning which might be useful to Brazil.

BRAZIL - Economic and Sector Work Program for FY84-85
(LAC and Non-LAC Managed Projects)

Task/Topics	Link to Economic Policy Dialogue, Lending Program	Primary Responsibility	Report Deadline	Total Staff Weeks Required		
				(FY83)	FY84	FY85
<u>General</u>						
Economic Memo /a Macro-economic update and focus on transition from austerity to growth, covering export promotion, employment, poverty alleviation, more effective planning, and credit-worthiness.	Input into annual policy review with Government economic team at end of each calendar year.	LC2	November 1983, November 1984	-	40	25
CPP /b	Basis for lending strategy, ESW program.	LC2	March 1984, March 1985	-	25	25
Project Evaluation Criteria Development of uniform criteria and estimation of equilibrium exchange rate, shadow price of capital and labor.	Project evaluation.	LC2	end-CY84	-	20	-
Macro-Model for Brazil Development of macro-model of Brazilian economy.	Improve forecasting, evaluation of macro-policy impacts for economic memos, CPP, sector loans.	LC2, with possible DRD collaboration	end-CY86	-	-	30
Other ESW (EWO and SWO) /b Includes reporting and examination of short-term events.	-	LC2, LCP	-	-	100	100

/a Modification of study included in Indicative Statement, FY83-85.

/b In Indicative Statement, FY83-85.

Task/Topics	Link to Economic Policy Dialogue, Lending Program	Primary Responsibility	Report Deadline	Total Staff Weeks Required		
				(FY83)	FY84	FY85
<u>Poverty Alleviation, Employment and Income Distribution</u>						
Poverty Profile Update Supplementary work using 1980 census data in conjunction with UNESCO/CNRH study of poverty population and anti-poverty programs.	Input to policy dialogue, poverty alleviation lending strategy.	LC2, in coordination with Brazilian researchers (CNRH and UNESCO).	end-CY84 /c	-	10/c	-
Follow-Up on Employment Policies Review /a Analysis of employment-related issues identified in employment review done as part of 1983 Economic Memo.	Input to policy dialogue, poverty alleviation lending strategy.	LC2, with assistance from LCP, DRD	end-FY85	-	-	25
Income Distribution and Growth /b Analysis of changes in Brazilian income distribution between 1970 and 1980.	Input to policy dialogue, poverty alleviation lending strategy.	DRD with LC2 coordination (formal research proposal to be submitted in fall 1983).	end-FY85 /c	-	12	17
Impact of Collective Bargaining Agreements on Urban Wages /b Analysis of the role of the Government and labor organizations in wage formation.	Contributes to policy dialogue on employment, wage regulations.	DRD with LC2 coordination (formal research proposal to be submitted in June 1983).	end-FY86	-	22	22

/a Modification of study included in Indicative Statement, FY83-85.

/b In Indicative Statement, FY83-85.

/c Dependent on 1980 census public use tape.

Task/Topics	Link to Economic Policy Dialogue, Lending Program	Primary Responsibility	Report Deadline	Total Staff Weeks Required		
				(FY83)	FY84	FY85
<u>Population</u>						
Fertility, Population, and Migration Trends /a Explanation and impact of 1970-80 demographic and fertility trends, and better understanding of determinants of fertility, migration.	Input to policy dialogue, poverty alleviation lending strategy, and population strategy paper.	LC2, with PHN and possible Brazilian collaboration.	end-CY84 /c	-	12	-
Population Strategy Paper Examination of population trends and projections, assessment of Government policy toward population and family planning, and recommendations for Bank involvement.	Input to policy dialogue and poverty alleviation lending strategy.	LC2, and/or PHN	end-FY85	-	-	10
<u>Financial Policies /b</u>						
Financial Policies Follow-Up /b Examination of recent changes in financial policies, regulations, and effect of these changes on macro-policy.	Input to policy dialogue.	LC2	end-FY85	-	-	30

/a Modification of study included in Indicative Statement, FY83-85.

/b In indicative Statement, FY83-85.

/c Dependent on 1980 census public use tape.

Task/Topics	Link to Economic Policy Dialogue, Lending Program	Primary Responsibility	Report Deadline	Total Staff Weeks Required		
				(FY83)	FY84	FY85
<u>Agriculture</u>						
Northeast Rural Development Joint Bank/Government effort to develop a coordinated strategy for the rural Northeast.	Input to Northeast rural development loans.	LCP, and Brazilian researchers.	December 1984	-	10	-
Selected Agricultural Issues Analysis of incentives, emphasizing marketing, price support system, rural credit and agricultural export policies.	Preparation for Agricultural Sector Loan II.	LCP, with Brazilian cooperation	December 1983	(10)	40	-
Agricultural Sector Review /a Overall policy framework, relationship to economic stabilization and growth, and special topics, e.g. irrigation.	Input into general policy dialogue and agricultural project and sector loans.	LCP, with possible non-LAC resources and Brazilian cooperation.	end-FY85	-	20	60

/a Modification of study included in Indicative Statement, FY83-85.

Task/Topics	Link to Economic Policy Dialogue, Lending Program	Primary Responsibility	Report Deadline	Total Staff Weeks Required		
				(FY83)	FY84	FY85
<u>Industry and Trade</u>						
Industry Sector Follow-Up /a Focus on increasing efficiency in industry, with analysis of traditional manufacturing export subsectors and industrial development policies for Northeast.	Input to policy dialogue and to industrial sector Loan II.	LC2, and/or LCPIDF1 with possible collaboration with Brazilian researchers and with the INCA unit.	December 1984	-	30	30
Industrial Strategy Paper Identification of issues and constraints, and recommendations for Bank's role in the sector.	Input to policy dialogue and to industrial sector loans.	LCPIDF1, with LC2.	end-FY84	-	20	-
Technology Sector Review /b Study of high technology industry and technology transfer.	Input to policy dialogue on education and industry; complementary to proposed science and technology project.	IND	mid-CY84	(6)	20/c	-
<u>Urban/Regional</u>						
Urban Sector Strategy /a Update of urban growth trends, identification of issues and sector and Bank priorities.	Input to Medium-Sized Cities II (FY85) N.E. Metropolitan Development (FY87), and Urban Sector (FY88) loans.	LCP	June 1984	-	26	-
Greater Carajas Regional Survey /a Survey of development prospects and constraints for the region.	Basis for Grande Carajas Technical Assistance (FY86R) and Grande Carajas Loans (FY88R).	LC2	December 1985	-	-	40

/a Modification of study included in Indicative Statement, FY83-85.

/b In Indicative Statement, FY83-85.

/c Subject to results of preliminary mission.

Task/Topics	Link to Economic Policy Dialogue, Lending Program	Primary Responsibility	Report Deadline	Total Staff Weeks Required		
				(FY83)	FY84	FY85
<u>Education</u>						
Education Sector Strategy /a Study of longer-term sector policy issues, integrating completed studies on basic education and science and technology with new work on education finance and management.	Input to policy dialogue on education; support of proposed sector loan.	LCPED, with substantial input from Brazilian researchers.	late 1985	-	50	20
Human Capital Accumulation and Urban Wage Employment /a Cross-country study for Brazil, Korea, and Sri Lanka of relative importance of education, formal training and on-the-job training, in wage formation and labor productivity.	Input to policy dialogue on employment, education loans.	DRD, with LC2 coordination (formal research proposal to be submitted in March 1983).	December 1986	-	10/c	10/c

/a Modification of study included in Indicative Statement, FY83-85.

Task/Topics	Link to Economic Policy Dialogue, Lending Program	Primary Responsibility	Report Deadline	Total Staff Weeks Required		
				(FY83)	FY84	FY85
<u>Health</u>						
Health Policy Issues and Strategy <u>/a</u> Study emphasizing equity and efficiency of health system; program and policy coordination; and roles of public and private sectors.	Input to policy dialogue on health, nutrition and family planning; support expansion of lending in health sector.	PHN, in coordination with Brazilian researchers.	December 1985	-	25	30

/a Modification of study included in Indicative Statement, FY83-85.

/b In Indicative Statement, FY83-85.

/c Brazil segment.

Task/Topics	Link to Economic Policy Dialogue, Lending Program	Primary Responsibility	Report Deadline	Total Staff Weeks Required		
				(FY83)	FY84	FY85
<u>Transportation</u>						
Special Topics/Sector Strategy /b Completion of analyses on highways, intermodal transport and pricing, and energy-efficient transport modes, and integration into sector strategy memo.	Possible input to Energy Conservation Loans, Highway Maintenance Loan (FY86).	LCP	December 1984	(52)	26	-
<u>Other Energy</u>						
Bank Energy Strategy Identification of major issues in energy sector, and recommendations for Bank policy dialogue and lending in the sector, building on and updating energy assessment report. Other reviews (mining sector, charcoal/wood, transport and energy policy study, and the following studies) will also provide inputs into the strategy.	Input to general policy dialogue and basis for defining and structuring Energy Sector Loan (FY86-88) and project loans.	LC2, with inputs from LCP, EGY, IND	July 1983	(20)	5	-

/b In Indicative Statement, FY83-85.

Task/Topics	Link to Economic Policy Dialogue, Lending Program	Primary Responsibility	Report Deadline	Total Staff Weeks Required		
				(FY83)	FY84	FY85
Gas Utilization Study Assessment of potential for natural gas develop- ment and use in the large Southeastern cities.	Input to Gas Pipeline Loan (FY85R) and Bank energy strategy.	EGY	June 1983	(15)	-	-
Refinery/Chemical Sector Review Update earlier sector study and assess use- fulness of refinery modifications and energy conservation in production.	Input (in preliminary form) to energy strategy and possible information for future loan.	IND	August 1983	(18)	12	-
Energy Conservation in Industry Examination of potential for conservation in the industrial sector in Brazil and other countries using earlier energy assessment studies and updating	Possible input into energy conservation loan.	EGY (formal research proposal to be submitted in June 1983).	June 1985	-	15/d	-
<u>Total Resources</u>					550	474
LAC-managed					434	395
Other					116	79

/d Brazil segment.

April 8, 1983

