

COUNTRY FILES

S. 15/ BTJ - Country  
World Bank for International  
Development (1987) - General

D.35 COUNTRY DEBT SITUATION

BRAZIL

1987 - 89

BRAZIL - DEBT SITUATION  
1987 - 89


BOX 3  
FILE 1



# Office Memorandum

TO: Mr. Allen

November 3, 1989

FROM: J. Guzman 

SUBJECT: Brazil--Arrears on Debt Service to Commercial Banks

This is in response to your query regarding Brazil's build up of payment arrears on loans cofinanced by commercial banks.

Since July, it seems that Brazil has stopped making virtually all interest payments on its medium-term external debt owed to commercial banks. For your information, the attached table provides estimates of the evolution of Brazil's arrears and gross international reserves, on the assumption that these interest arrears continue to build up and that Brazil remains current on all its other scheduled payments.

Attachment

Table 1. Brazil: Gross Reserves Projection, Oct. 09-Mar 90

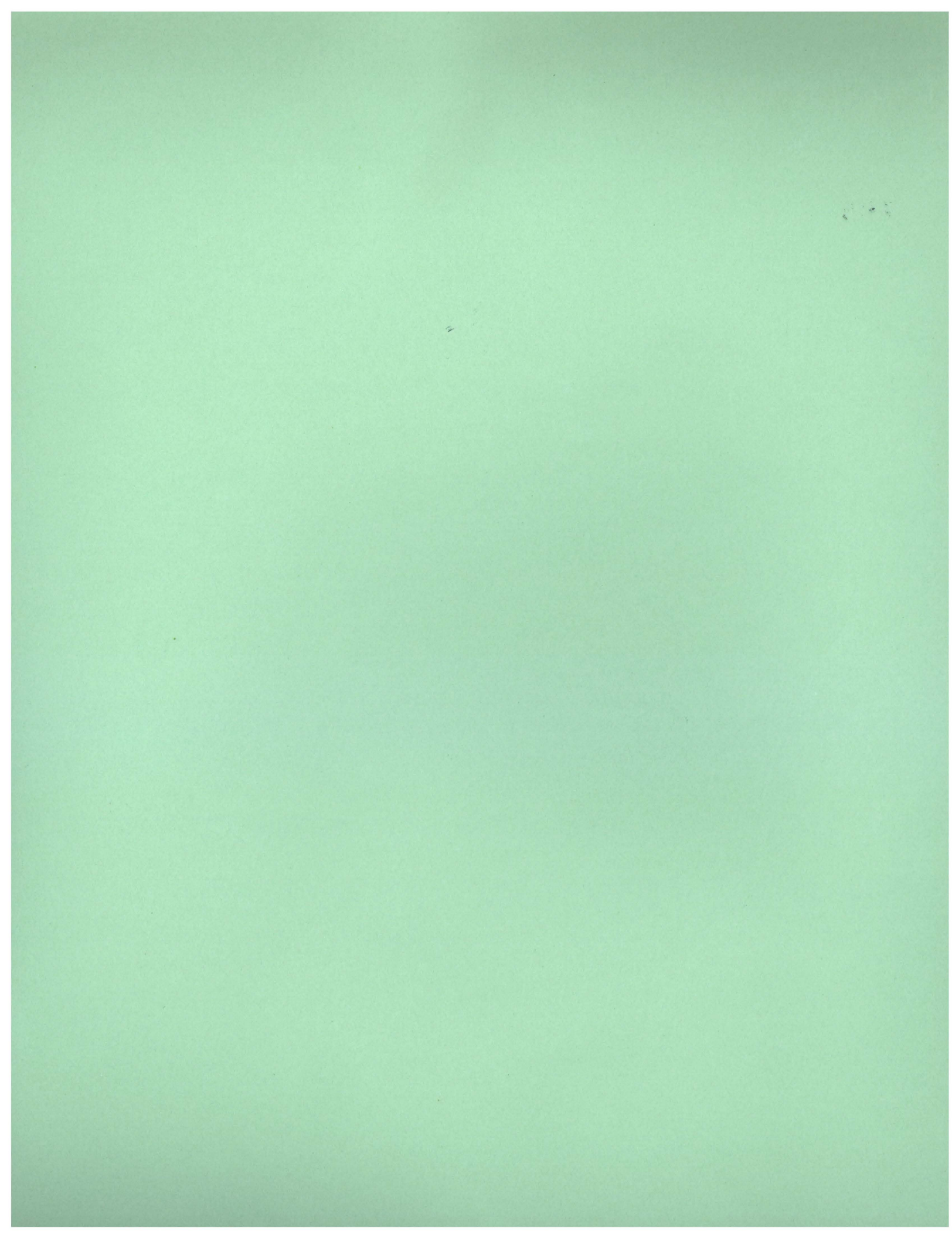
(In billions of US\$)

	Caixa 1/	IMF
=====		
Gross reserves @ end-June:	5.555	7.507
Change in assets- Jul.-Oct.	0.562	
Minus: IMF purch.	-0.607	
Banks' new money	-0.600	
Plus: Arrears 2/	2.946	
@ end-Oct.		
Gross reserves	7.056	9.000
Arrears 2/	2.946	
-----		
Change in assets-Oct.-Dec.:	0.095	
Minus: IMF purch.	-0.100	
Banks' new money	0.000	
Plus: Arrears 2/	0.535	
@ end-Dec.		
Gross reserves	0.290	10.330
Arrears 2/	3.401	
-----		
1st quarter top:	-0.500	
Plus arrears to banks 2/	1.137	
Minus: repurch to IMF	-0.150	
@end-March		
Gross reserves	0.785	10.017
Arrears 2/	4.610	
-----		
Repay arrears	-4.610	
Loan from bnks	0.600	
Adjusted reserves	4.767	6.799
=====		

Sources: Central Bank; and Fund staff estimates.

1/ Brazilian gross reserve concept.

2/ Arrears on interest accruing on med.-long-term debt owed to commercial banks.





# Office Memorandum

bcc: Blue Folder

Mr. Acqua

Mr. Allen

Mr. Johnson

Mr. Kelly

September 6, 1989 Mr. Puyol

Mr. Oliveira o/i

TO: Mr. Reichmann

FROM: Eduard Brau \* *E*

SUBJECT: Brazil--Staff Report

I do hope that we will now succeed in having the report issued. The updating you have done seems to me to fit well into the previous draft and I therefore confine my comments to specific points by page. In addition, a number of presentational suggestions are contained in the attachment.

Page 3, middle paragraph. The increase in net exports after 1982 had no necessary consequences for Brazil's inflation performance; I am leery of giving support to such suggestions and would prefer the thought deleted.

Page 13, end of middle paragraph. We need to make some reference, if only brief, to the emergence of external payments arrears by the middle of 1989.

Page 15, beginning of middle paragraph. It is not helpful to suggest that discussions on a stand-by arrangement of a most unusual type are continuing and I would recommend deleting the thought.

Page 26, first sentence. Here, there is reference to external payments arrears but why to "re-emergence" and why not mention an approximate size as of a certain date?

Page 27 onward--medium term projections. My colleagues focus in their comments on the optimistic economic developments that would be possible with improved domestic policies. My own view is that the normative character of these scenarios is clear from the introduction. Nevertheless, I think that a sharper distinction of new policies from current ones would be helpful in the opening paragraph.

Page 28, middle paragraph. As this paper does not involve a proposed use of Fund resources, the two sentences regarding ability to repay the Fund should be dropped.

Page 31, second line. Add the sentence: "Congress approved a system of monthly wage indexation and mandated real increases in the minimum wage for the remainder of 1989."

Page 31, end of first full paragraph. The staff appraisal does not now comment on the medium-term outlook but at least a brief mention would appear necessary. A sentence could be added at the end of

the first full paragraph saying that "with such decisive changes in policies, a favorable evolution of the economy of the kind depicted in the staff's medium-term projections could be obtained."

Page 32, second full paragraph. Redraft the first two sentences as follows: "Over the past year, the authorities have taken actions to liberalize the exchange and trade system which have contributed to an improvement in the overall efficiency of the economy. The authorities have also expressed their commitment to reduce reliance on restrictive practices and they regard the emergence of external payments arrears to be temporary. Brazil maintains a number of measures subject to Fund approval. In view of the ...."

Page 33, third full sentence. Rephrase to: "However, this policy alone is unlikely to achieve this result and would entail high costs in terms of economic activity, thus heightening the urgency of not sparing any effort to implement the policies..."

Page 33, fourth full sentence. Rephrase to: "All of the instruments of policy would need to be called into play in such an effort, including incomes policies, but recent experience shows...."

Attachment

Brazil--Comments on Draft Staff Report

The paper could be more forthcoming in discussing the likely outturn for the 1989 balance of payments; as it stands it would appear as though the staff is endorsing the authorities' projections. It is mentioned that the authorities view the recent emergence of arrears as temporary; does the staff have confidence that these arrears can be eliminated promptly? What is the projected financing gap for 1989?

The treatment of debt conversions in the report might be expanded. The report mentions that the authorities viewed debt equity swaps as inflationary and therefore suspended them in January; however, it is mentioned that the authorities are considering resuming debt-equity conversions. It would be useful if the report could comment on the magnitude of the contribution of Brazil's debt-conversion scheme to the country's inflation problems in 1988. Also, if this scheme was a significant source of inflationary pressures, would it not be appropriate to comment, in the staff assessment, on the prospect of resumption of the scheme?

Page 24. The discussion of trade liberalization seems to assume that the reader is already familiar with the reform measures taken in 1988. This section might be redrafted to give the reader a sense of the context of the measures introduced in 1988 and the extent to which they constituted a major reform. The report makes no reference to the citing of Brazil by the United States under Super 301, the circumstances giving rise to it, and the views of Brazil regarding it.

We had difficulty following the various figures provided on inflation: e.g., 934 percent for 1988 (page 5) versus 685 percent in Table 11; also, the monthly figures on page 12 differ quite significantly from those in Table 12, and "the deceleration in the rate of inflation observed in July and August", mentioned on page 22, is not borne out by either. More generally, the reader would be helped by the inclusion of the standard main indicators table;

The footnote on the INS real effective exchange rate (page 12) should be moved to the top of page 13 and updated to reflect the most recent run through June 1989, for which the estimated appreciation amounted to 23.7 percent (see the draft information notice currently on hold);

A draft decision along the lines of that concluding the last Article IV (see Appendix I, page 2) should be included in the report;

The background section could helpfully include a reference to the 1983-86 EFF.

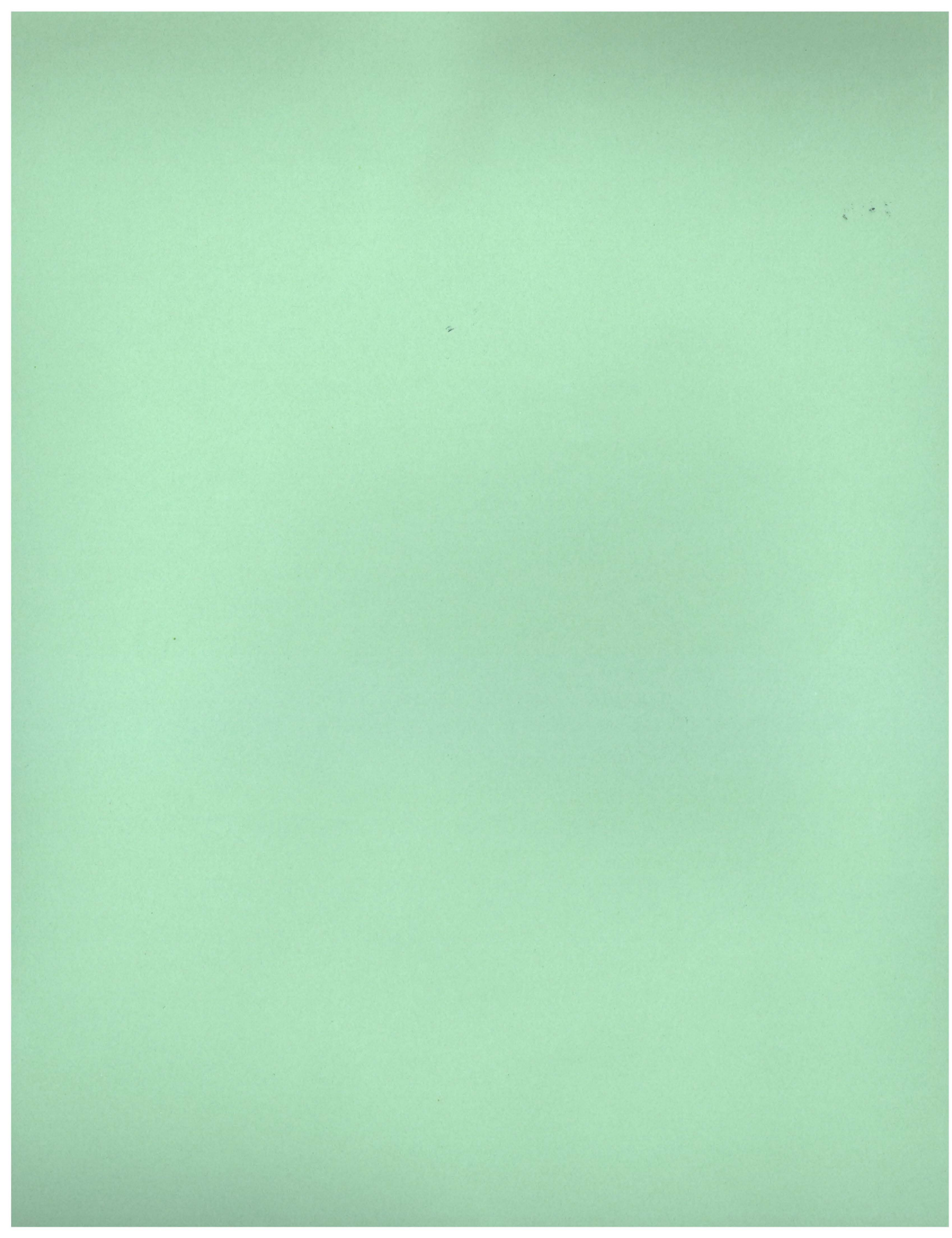
Page 16. The section on price and incomes policies should mention recent inflation rates for July and August which, contrary to what is said on page 22, do not show a deceleration in the rate of inflation.

Page 14. Reference to the negative effect of the freeze in public tariffs on 1989 public sector deficit should be deleted in view of what is said on page 19, first full paragraph.

Page 22, third line from the bottom. What does it mean to say that "credit restraint is the main instrument to preserve the working of the economy"?

Page 25, line 7. "Deficit" should be changed to "surplus."





**INTERNATIONAL MONETARY FUND**

September 1, 1989

Mr. Brau:

Attached are EFD's comments on Brazil - Staff Report, which I reviewed.

Attachment

cc: Mr. Acquah  
Mr. Allen  
Ms. Kelly  
Mr. Pujol  
Mr. Watanabe  
Mr. Watson  
Mr. Oliveros



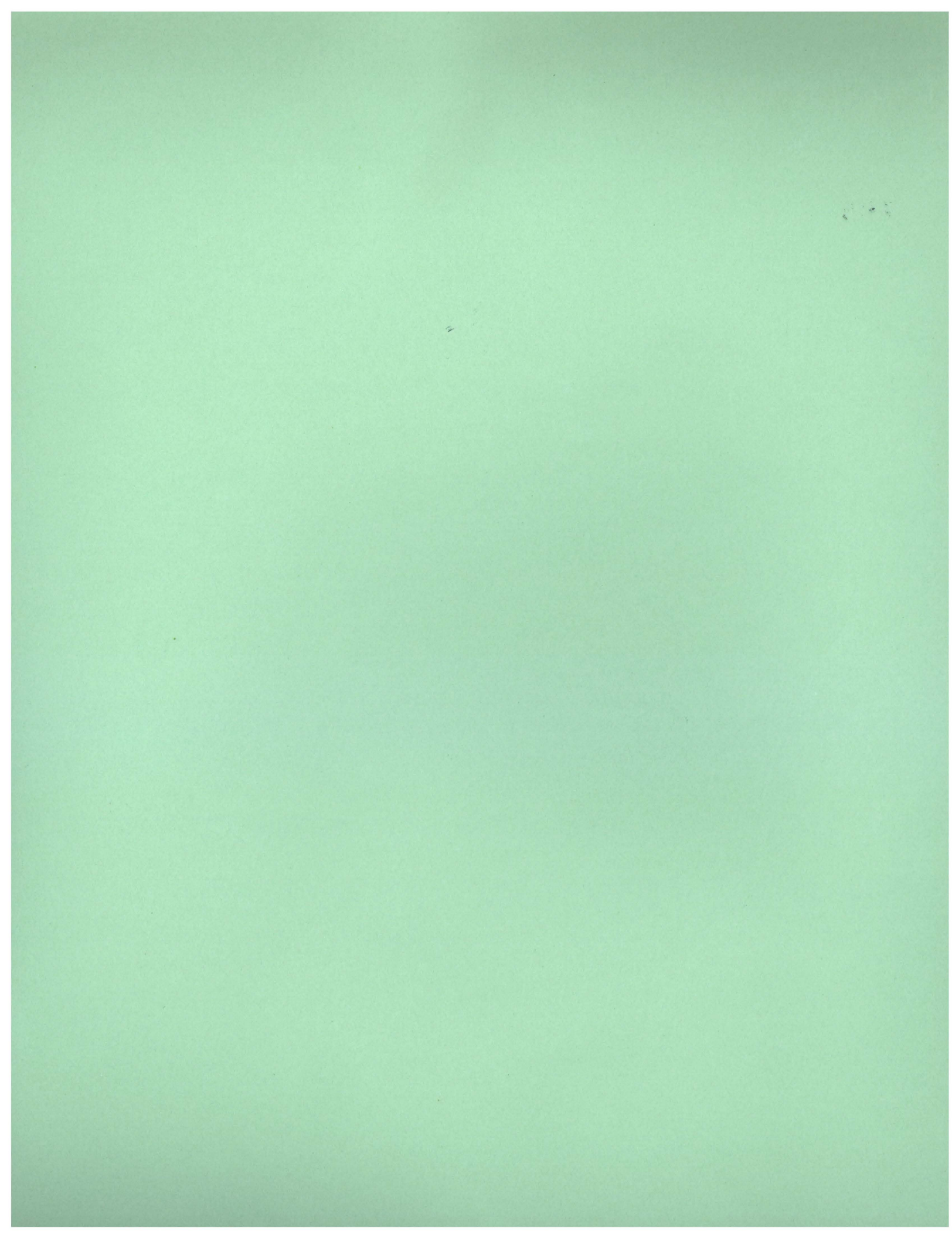
**G. G. Johnson**

September 1, 1989

Brazil--Comments on Staff Report

We have no substantive comments.

Presentationally, should line 3 to Table 13 include a reference to the 1987 and 1988 Paris Club rescheduling, as does line 3 to Table 14?





# Office Memorandum

*Brazil  
cif/det*

TO: Mr. Reichmann  
FROM: Michael G. Kuhn *MGK*  
SUBJECT: Paris Club--Brazil

June 30, 1989

Further to my back to office report on last week's Paris Club meeting, creditors reported as follows on the status of bilaterals from the July 1988 Agreed Minute (the bilateral deadline was set at March 31, 1989):

Austria: Signed June 2, 1989.

Belgium: Signed early June.

Canada: Signed early June.

Germany: Signed on June 10; very good implementation record.

Japan: Signed one part on March 23, second expected in July.

Netherlands: Signed early June.

Sweden: Agreement reached end of April.

cc: Mr. Oliveros



# Office Memorandum

cc: Blue Folder  
Mr. Cagoch  
Mr. Allen  
✓ Mr. Johnson  
Ms. Kelly  
Mr. Puyol  
May 23, 1989

TO: Mr. Reichmann  
FROM: Eduard Brau *EB*  
SUBJECT: Brazil--Briefing Paper

The approach of the authorities to seek to stabilize inflation at high single-digit rates of increase is most unlikely to succeed, as we all know. Any kind of benefit-of-the-doubt approach, following upon the quick failure of the January 1989 disinflation plan, must be based on certain minimal prior actions. I therefore think it is essential that the brief include an explicit listing of the prior actions and their approximate size that would be needed to give the approach at least a theoretical chance of success. These prior actions will need to include fiscal measures including wage decisions, interest rate measures, and exchange rate measures.

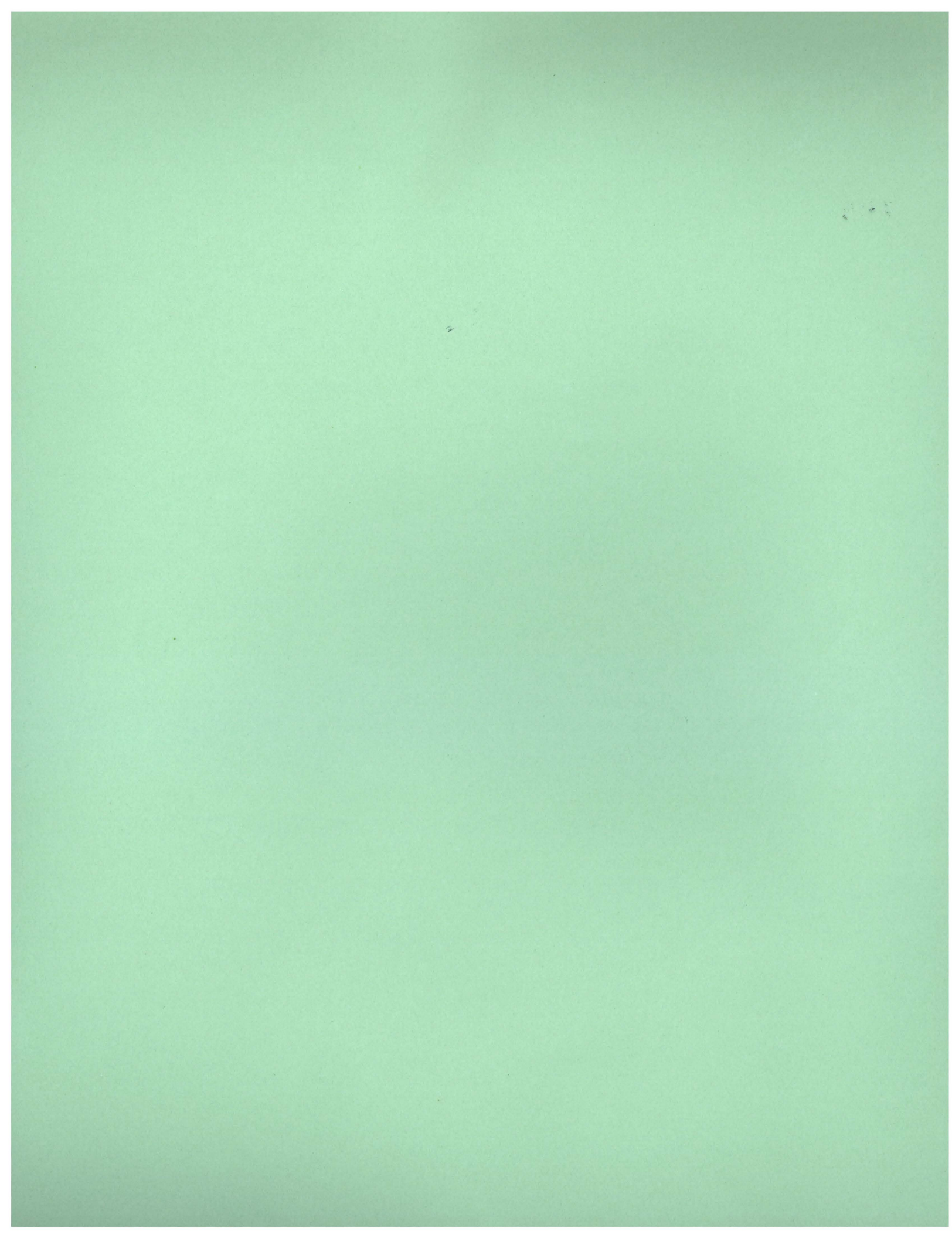
I do agree with the stipulation that the approach will be abandoned once it is clear that inflation exceeds the single-digit size.

The paragraph on page 6 of the draft brief concerning the form of possible Fund support should be dropped. These matters are left for later decision.

The brief would benefit from a short reference to World Bank views on the situation in Brazil, and their own plans.

Please also include in the brief a sentence to the effect that you will inform the authorities that the Article IV Staff Report will be issued should it become clear that the present approach has played itself out.

cc: Mr. Oliveros



**INTERNATIONAL MONETARY FUND**

May 22, 1989

Mr. Brau:

Attached are EFD's comments on Brazil--Briefing Paper, which I have reviewed.

cc: Mr. Acquah  
Mr. Allen  
Ms. Kelly  
Mr. Pujol  
Mr. Oliveros

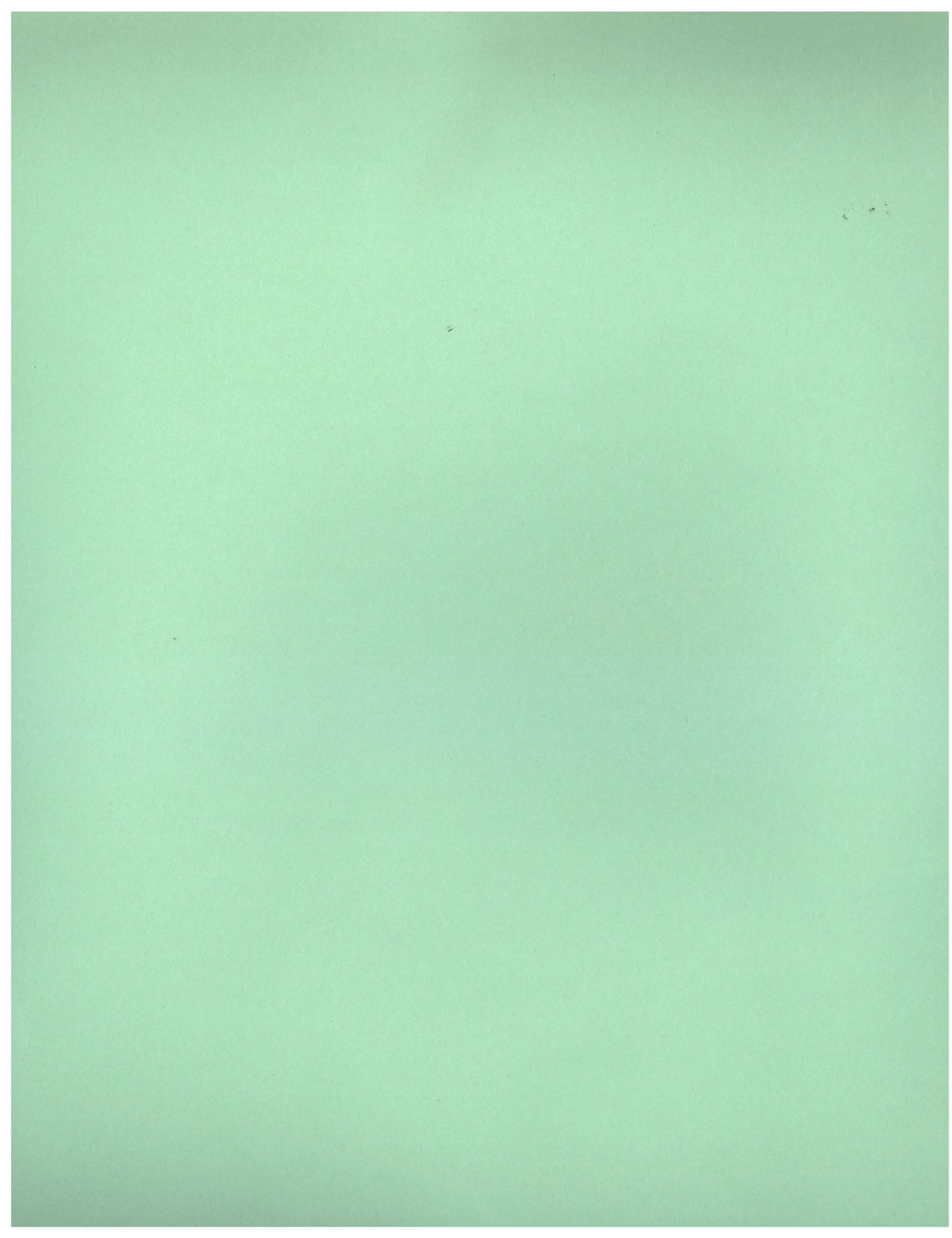
Hgk  
Michael G. Kuhn



May 22, 1989

Brazil: Comments on Briefing for Mission

While we have no specific comments regarding external finance issues, we wonder about the very modest goals set out in the draft and the lack of specificity, in particular on the fiscal side. The primary fiscal balance should improve, but is expected to deteriorate by 4 percentage points of GDP on present trends. The fiscal measures proposed by the Minister would yield only about 0.5 percent of GDP (page 4), and the brief gives very little indication how the minimum additional improvement of 3.5 percent of GDP is to be brought about. Monetary policy will have to bear the brunt of the adjustment effort and significant increases in interest rates are called for, but the authorities have lowered rates and the exchange rate appears to be getting out of line very quickly. It is difficult to see how we could complete the review of the present stand-by arrangement, even with reduced access, on the basis of a program that does not even amount to a holding operation.





# Office Memorandum

EFD

bu: Blue Folder

Mr. Pappas

Mr. O'Connell

TO: Mr. Reichmann

March 29, 1989

FROM: Eduard Brau *EB*

SUBJECT: Brazil Brief

With Minister Nobriega's confirmation of the dismal March inflation results, the brief needs to be recast, in my view. The references to a possible EFF program are too fanciful to clutter up the brief and should be dropped. Instead, and to help provide clear information for management and to seek guidance, the three choices we presently have might be set out in the brief, or more succinctly in a frank cover note. I would see these choices as: (i) a national emergency plan with high-visibility fiscal actions designed to rescue the January disinflation plan and seeking inflation of about 2 percent per month or less; (ii) a muddling-through approach accepting whatever the Brazilians may offer in terms of additional actions, designed to tide over the country to the November elections and entailing rising inflation along a path difficult to predict; and (iii) a friendly parting of the ways between Brazil and the Fund at this time.

I think it most important that management has a clear description by the staff of the choices we now face. For this purpose, the brief might sketch the type and size of fiscal actions for a decisive rescue operation, assessing also the degree of realism we could prudently attach to it. For the muddling-through approach, we would also need a specific description of the minimum size of fiscal actions that could enable a program on the basis of single-digit monthly inflation rates. That type of program, as we all know, would have no more than minimal chances of being observed by Brazil, while serving the purpose of taking the Fund out of the political line of fire of Brazilian politicians seeking now to find external targets for their frustrations on economic policymaking. In any case, we would need clear prior actions (fiscal effort, exchange rate adjustment, unfreezing) and evidence of moderate wage negotiation outcomes and a significant reduction in April inflation performance for management even to consider presenting a muddling-through approach to the Board.

I have a few other specific suggestions which I am happy to discuss with you after you have seen my main comments.

Brazil Folder

INTERNATIONAL MONETARY FUND

March 27, 1989

Mr. Pujol:

Attached are EFD's comments on Brazil--Brief for Mission, which Mr. Schramm reviewed.

I shall be looking at the comments this evening to see if I have any further thoughts.

Attachment



cc: Mr. Allen  
Mr. Quirk

G. G. Johnson

### Brazil--Comments on Brief for Mission

The recent high inflation rate, the projected fiscal weakness, and uncertainties surrounding the January 1989 disinflation program raise questions about short- and medium-term balance of payments viability.

The brief's external area focus centers on bolstering the current account, primarily through liberalization. More focus on the capital account is needed, particularly in light of the stated need for a cru-zado depreciation. The issue of capital flight needs to be addressed here as well as projected external financing gaps and the means by which those gaps will be accommodated.

Since current account improvements alone will not sustain Brazilian balance of payments, prospects for private capital inflows need also be discussed. Recent developments in debt conversion schemes need also be explored.

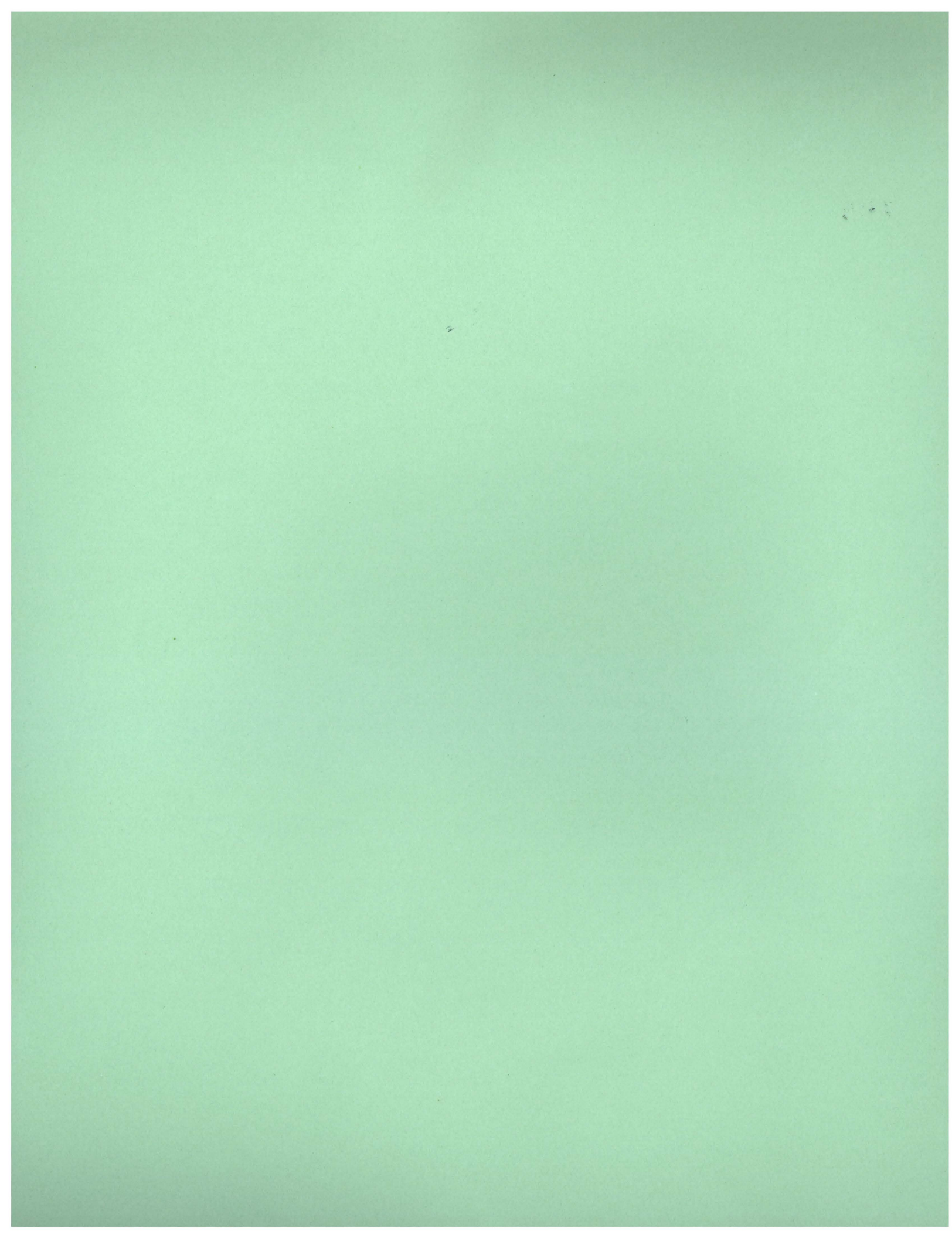
The discussion of export led growth should be tied in with the mission's intentions regarding ceilings on net disbursements of external debt. Finally, the mission needs to clearly define what the gain will be in terms of structural adjustment and improved performance under an extended arrangement as compared to the current stand-by arrangement.

#### Presentational points

1. Given the missions intention to discuss an extended arrangement, medium-term balance of payments tables and external financing requirements tables would be useful.

2. "Gross Reserves", page 4, line 8 could be more relevantly presented as net international reserves and in terms of import-months.

3. Some mention of recent parallel market exchange rates would be useful.





# Office Memorandum

TO: Mr. Kanesa-Thanan  
Mr. Liuksila

DATE: August 11, 1988

FROM: T. Reichmann *TR*

SUBJECT: Brazil - Effective Date of Stand-By Arrangement

The attached draft has been prepared in anticipation of the announcement by the advisory committee of commercial banks that 95 percent of commitments has been reached. This announcement is expected for early next week.

It is intended to circulate this paper to the Executive Board on a lapse of time basis (which, in view of the recess, would involve a slightly longer period than customary).

I would appreciate your comments.

Attachment

*oral comment  
converged & IC-T  
GRB 8/11/88*

*2:45 p.m.  
8/11*

*GO called - concerned  
about complete bank covenants,  
such as condition on W. Blom  
the money will be approved  
still end of year.  
discussed Yugoslavia  
covenant problem.  
He will pursue it since*



INTERNATIONAL MONETARY FUND

BRAZIL

Stand-By Arrangement - Effective Date

Prepared by the Western Hemisphere and Exchange and Trade  
Relations Departments

(In consultation with the Legal Department)

Approved by S.T. Beza and Eduard Brau

August , 1988

On July 26, 1988, the Executive Board approved Brazil's request for a stand-by arrangement for the period ending February 28, 1990 in an amount of SDR 1,096 million (EBS/88/130, 7/7/88; Sup. 1, 7/22/88; and EBS/88/126, 7/1/88). The approval was in principle and the decision stated that the arrangement "shall become effective on the date on which the Fund finds that satisfactory arrangements have been made for Brazil's foreign commercial bank financing needs, but provided that such finding shall be made not later than September 9, 1988."

In EBS/88/130, the staff noted that Brazil's external financing gap for 1988-89 amounted to US\$29.1 billion and that this financing requirement was expected to be covered by the rescheduling of some US\$16.9 billion of principal payments owed to commercial banks; US\$5.2 billion in new money from commercial banks; the rescheduling of US\$3.6 billion of principal payments owed to official creditors; additional lending by the World Bank of some US\$0.8 billion; purchases from the Fund for about US\$1.4 billion; and about US\$1.2 billion from the retiming of interest payments to commercial banks and from an increase in credits guaranteed by official bilateral export credit agencies.

Since the stand-by arrangement was approved in principle, the authorities of Brazil have obtained commitments from official creditors and commercial banks. On July 29, 1988 representatives of official creditors at the Paris Club agreed <sup>in principle</sup> to recommend to their governments the rescheduling of 100 percent of the principal payments due from January 1, 1987 to March 31, 1990 and of 70 percent of the interest payments due from August 1, 1988 to March 31, 1990. <sup>1/</sup> The Brazilian authorities estimate that this rescheduling would amount to about US\$4.8 billion. In addition, on August --, 1988 the Bank Advisory Committee for Chile <sup>(the Fund)</sup> informed management that, as of that date, Brazil had obtained from commercial banks commitments for more than ---- percent of the requested new money facility. Commitments for the remaining amount are expected to be forthcoming soon. The staff also understands that other aspects of the financing package relating to commercial banks--e.g., the multiyear rescheduling arrangement and arrangements relating to trade and interbank credit lines--will fall into place as commitments for the new money facility are completed.

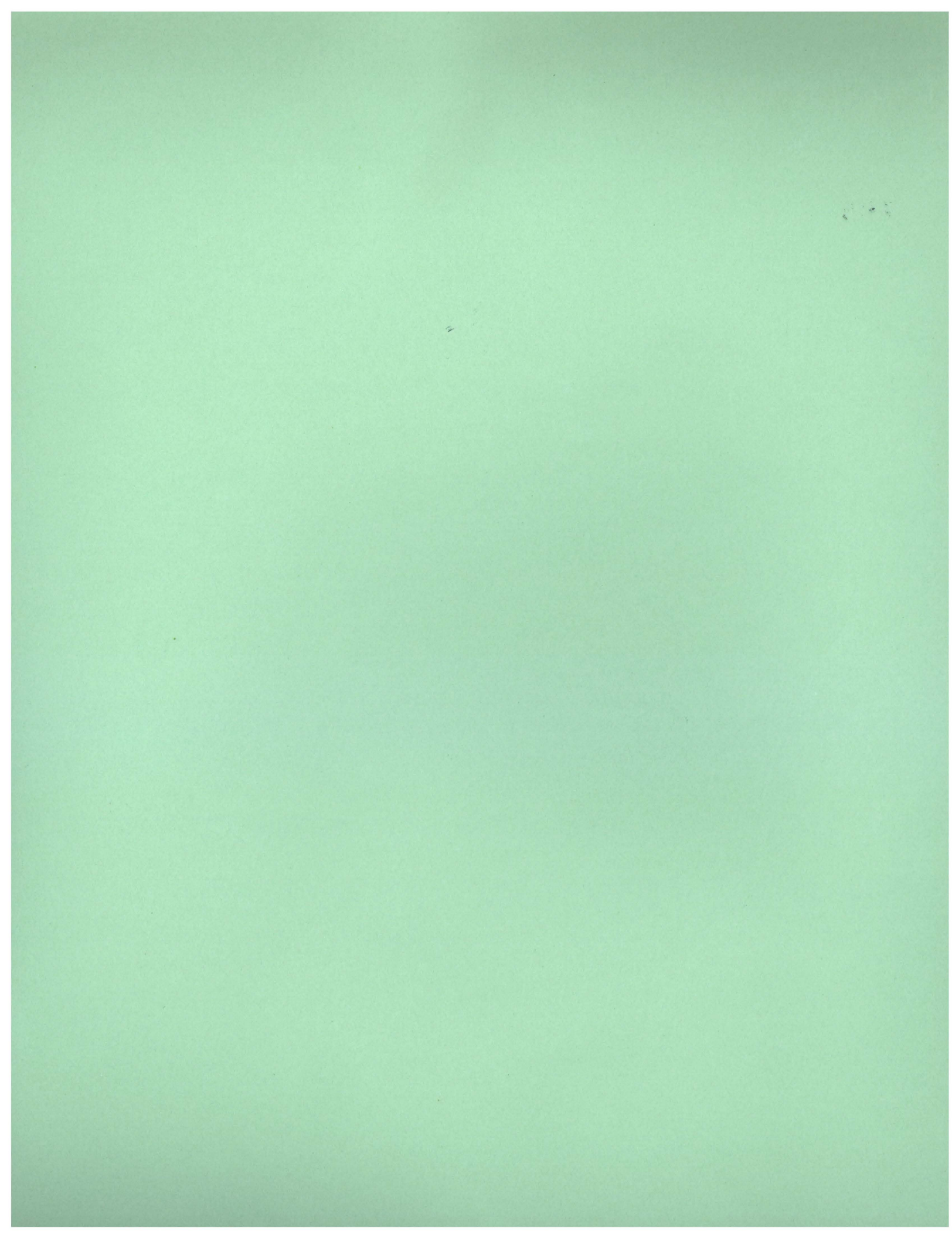
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The staff finds that these arrangements furnish sufficient assurance that Brazil's balance of payments financing requirements for 1988-89 will be met. Accordingly, the following draft decision is proposed for adoption by the Executive Board:

1. The Fund finds that satisfactory arrangements have been made with respect to Brazil's foreign commercial bank financing needs in 1988 and 1989.

0) To be added when the Board arrangement deal offers  
 1/ The remaining 30 percent of interest payments would be paid in two installments after March 1990. See EBS/88/---, August , 1988.

2. Accordingly, the stand-by arrangement for Brazil set forth in EBS/88/130, Sup. 2, shall enter into effect in August --, 1988.





# Office Memorandum

*Brazil debt*

July 21, 1988

CONFIDENTIAL

MEMORANDUM FOR FILES

SUBJECT: Brazil--Export Credit Initiatives--Information from France

During last week's Paris Club meeting and again today, I discussed with Mr. Samuel-Lajeunesse the fact that we had not received a response from France regarding the export credit initiative. He suggested that we could project new commitments from France approaching \$100 million a year (this was based on what he understood to be the program projection of \$1 billion a year for all countries prorated according to France's share of OECD GNP--8.5 percent). I indicated that the program assumption was disbursements from new commitments would be \$600 million in 1988 and 1989. The indications we had had from other creditors suggested that this was a conservative estimate; in that context, France's projection looked low. Mr. Samuel-Lajeunesse replied that he felt that their projection was in fact rather conservative, as there would be great demand for cover from exporters.

France's policy was not to go back on cover until the bilateral was signed. Since France usually proceeded very rapidly to signing bilaterals, this was not expected to be a significant impediment--he expected the bilateral to be signed by October. If there should be some delay, France might consider going back on cover before signing.

E.G. Johnson  
Chief  
External Finance Division

cc: Mr. Brau  
Mr. Reichmann (o/r)/Mr. Muniz



# Office Memorandum

CONFIDENTIAL

*Brazil debt.*

TO: Mr. Reichmann (o/r) or Mr. Muniz

FROM: G.G. Johnson *[Signature]*

SUBJECT: Brazil--Supply of Export Credits

July 8, 1988

The following assessment of the availability of export credits to Brazil is based on responses from four creditors representing approximately 60 percent of outstanding export credit commitments of the export credit agencies of the G-10 countries plus Spain. <sup>1/</sup> We also requested information from France, but we have received no response; France accounts for about 27 percent of outstanding commitments.

All four creditors responded that they are open for short-term cover to Brazil. Two of the agencies are open without restrictions; one agency maintains restrictions in the form of transaction limits and reduced percentage cover while the other applies an extended claims waiting period. All of the agencies are closed for cover of medium- and long-term transactions.

Although responses in certain cases were quite guarded all four creditors responded that they would be prepared to reopen medium-term cover or to re-examine their export credit policy stance if Brazil were to enter into an arrangement with the Fund and obtain a Paris Club rescheduling. However, the conditions and the timing for the resumption of cover varied among creditors. Two of the creditors would reopen medium- and long-term cover following the multilateral Paris Club agreement. The other two creditors considered that the signing and implementation of the bilateral agreements would be a condition for reassessing the stance of export credit policy.

Some of the creditors identified certain additional conditions that would facilitate the lifting of restrictions and the restoring of Brazil's access to certain programs. In one case these conditions consisted in reaching a long-term rescheduling with commercial banks concurrent with the Paris Club. In other cases certain type of projects where cover could be extended were identified (those contributing to the generation of foreign exchange and to economic growth and those endorsed by international financial institutions). Some creditors are anticipating a strong demand following the reopening of cover and were willing to extend cover, on an exceptional basis, in those cases where other credit insurers were also prepared to extend cover.

The amount of undisbursed commitments of the four creditors was estimated at US\$2.2 billion, equivalent to about 41 percent of

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<sup>1/</sup> Based on Berne Union reports which include undisbursed amounts and interest due.

outstanding commitments. 1/ One agency estimated potential disbursements corresponding to the pipeline at US\$856 million for 1988-89, or about 55 percent of the undisbursed commitments. Another agency estimated that all undisbursed commitments would be disbursed during the same period but in this case the amount of the pipeline was relatively small. The other two agencies did not provide estimates of disbursements of the pipeline. Using a conservative ratio of 55 percent for the latter agencies, disbursement on already existing commitments would amount to about US\$1.2 billion for the period 1988-89.

Concerning new offers and commitments after the reopening of cover, one agency indicated that it would expect a demand of about US\$400 million in the first year. Another agency indicated that it would apply a new commitment ceiling equivalent to US\$240 million. Based on the response of these two agencies and considering further amounts that could be made available by other agencies, it appears that disbursements on new commitments could be estimated at a minimum of US\$500 million through the end of 1989. Thus, the estimate of US\$1.7 billion of gross financing from official creditors assumed in the proposed program with Brazil 2/ seems attainable--and could even be on the conservative side.

All export credit agencies have strongly emphasized in their responses on Brazil that the information made available by them to the Fund staff does not constitute pledges or commitments and must be treated in strict confidence by the Fund staff. In particular this information should be kept from other creditors and from the debtor country. We suggest that we do not make copies or circulate the attached table.

Attachment

cc: (Without attachments)  
Mr. Whittome o/r  
Mr. Boorman o/r  
Mrs. Junz  
Mr. Brau

credit insurers were also prepared to extend cover.

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1/ In the case of one agency these amounts refer to end-1987. For the rest of the agencies these are data as of the end of March 1988.

2/ This includes disbursement from previous commitments from bilaterals and guaranteed suppliers of US\$1.1 billion, and new cover for US\$0.6 billion.

Brazil: Export Credit Cover

	Policy Stance		Outstanding Claims	Undisbursed Commitments	Projected Offers/Commitments
	Short term	Medium term			
(In millions of U.S. dollars)					
<b>1. United States</b>					
<b>a. Eximbank</b>					
Actual	Open	Off cover	<u>End-86</u> 1,281		<u>Mid 88-Mid 89</u> 400
Prospective	Open	Open	<u>End-87</u> 1,500		
Conditions	IMF upper tranche arrangements; Agreed Minute		<u>End March-88</u> 1,465	<u>End March-88</u> 90	
Comments	No restrictions on medium-term cover if Paris Club rescheduling is accompanied by bank MYRA. Expect substantial demand for cover.				
<b>b. OCC</b>					
	Use of OCC credit guarantees has fallen to zero, mainly because Brazil switched to Argentina as to wheat supplies. OCC does not expect to announce any coverage for Brazil in fiscal 1989.		<u>FY-86</u> Available : 365 Utilized : 76		<u>FY-88</u> —
			<u>FY-87</u> Available : 380 Utilized : 42		<u>FY-89</u> —
			<u>FY-88</u> Available : 100 Utilized : — (6/9/88)		



Brazil: Export Credit Cover (continued)

	Policy Stance		Outstanding Claims (In millions of U.S. dollars)	Undisbursed Commitments	Projected Offers/ Commitments
	Short term	Medium term			
2. <u>Germany</u>					
Actual	Open	Off cover	<u>End-86</u> Private : 135.7 Public : 3,082.0 Resched. : 296.6		<u>1988</u> 599 <u>1/</u>
Prospective	Open	Would re-examine stance	<u>End-1987</u> Private : 133.2 Public : 2,994.8 Resched.: 923.6	<u>End-87</u> Private : 50.6 Public : 1,517.5	<u>1989</u> 257 <u>1/</u>
Conditions	Cover policy will be re-examined after (a) approval of Fund program; (b) signing of Agreed Minutes; and (c) signing and implementation of bilateral agreement.				
Comments	If open in MLT would apply new commitment ceiling of DM 400 million (US\$240 million) coupled with transactions ceiling of DM 20 million (US\$12 million).				

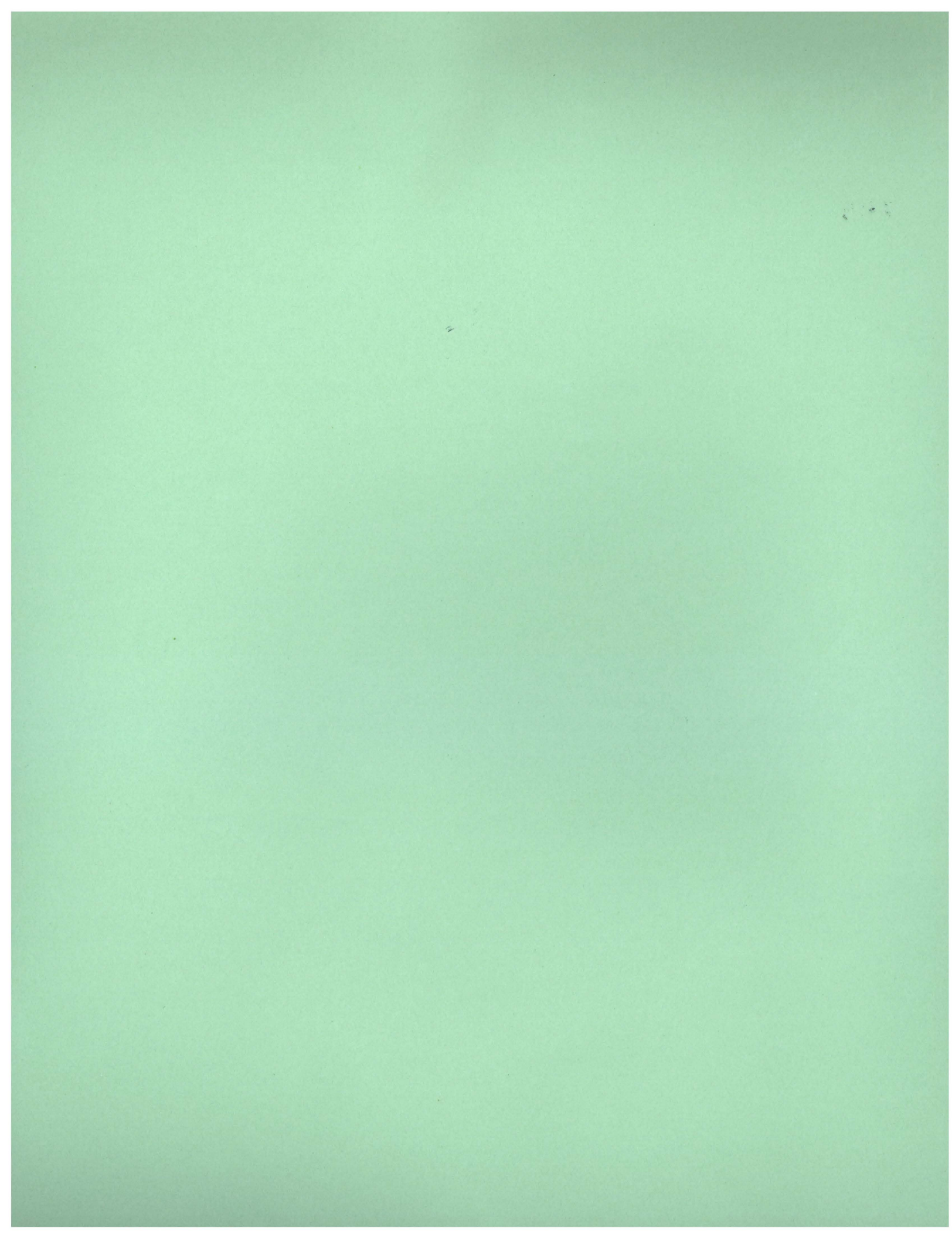
Brazil: Export Credit Cover (continued)

	Policy Stance		Outstanding Claims	Undisbursed Commitments	Projected Offers/ Commitments
	Short term	Medium term			
(In millions of U.S. dollars)					
3. <u>Japan</u>					
Actual	Open subject to certain restrictions	Closed	<u>End-86</u> 2,074.2		<u>1988</u> ...
Prospective	...	...	<u>End-87</u> 2,234.8		<u>1989</u> 23.9 <u>1/</u>
Conditions	Agreement with Paris Club is a first step for re-opening. Change in policy stance would be linked to implementation of the Paris Club agreement.		<u>End March-88</u> 2,169.1	<u>End March-88</u> 23.9	

Brazil: Export Credit Cover (concluded)

	<u>Policy Stance</u>		<u>Outstanding Claims</u> (In millions of U.S. dollars)	<u>Undisbursed Commitments</u>	<u>Projected Offers/ Commitments</u>
	<u>Short term</u>	<u>Medium term</u>			
<u>4. United Kingdom</u>					
Actual	Open	Closed	<u>End-86</u> 675.9	<u>End-86</u> 347.7	<u>1988</u> ...
Prospective	Open	Open	<u>End March-87</u> 820.9	<u>End March-87</u> 408.9	<u>1989</u> ...
Conditions	Would reopen after multilateral Paris Club rescheduling based on SBA.				
Comments	Would be prepared to reopen MLT (a) to cover business generating foreign exchange and contributing to economic rehabilitation in Brazil; (b) to cover on an exceptional basis other categories of exports including projects endorsed by IMF/IBRD; and (c) to cover on an exceptional basis other exports when other credit insurers are also prepared to cover them. Initial level would be low, but would then follow demand, provided Brazil adheres to the SBA program.				
<u>5. France</u>	No response received				

1/ Disbursements on existing commitments.



## EXIMBANK TELEX MESSAGE FORM

PAGE	OF	Sender/Originating Division	Telephone No.	Time Received :
		RICHARD D. CRAFTON/EOB THOMAS FORBORD	566-8943	
		Concurrence(s)/Authorizing Official(s)		Date Prepared :
		JOHN A. BOHN JR., PRESIDENT AND CHAIRMAN		JULY 7, 1988
				12 PITCH - 55/12 → 110 PITCH 55/10

TO ALL BERNE UNION MEMBERS

RE: BRAZIL - ACCEPTANCE OF APPLICATIONS FOR MEDIUM AND LONG-TERM COVER

THE RESULTS OF THE COOPERATION ECA MEMBERS HAVE DISPLAYED DURING THE DIFFICULT PERIOD OF THE BRAZILIAN DEBT STANDOFF SEEMS AT LAST TO BE WITHIN SIGHT. THERE IS NO QUESTION BUT THAT OUR WORKING TOGETHER HAS ENCOURAGED BRAZIL TO NORMALIZE ITS RELATIONS WITH THE COMMERCIAL AND OFFICIAL INTERNATIONAL FINANCIAL COMMUNITY. THE SIGNING OF A COMMERCIAL BANK RESCHEDULING AND NEW MONEY AGREEMENT AND THE RECENT RECOMMENDATION OF APPROVAL OF A STANDBY AGREEMENT BY IMF MANAGING DIRECTOR REPRESENT SIGNIFICANT STEPS IN THE DIRECTION WE HAVE ALL BEEN URGING BRAZIL FOR THE PAST 2 AND 1/2 YEARS.

IN RECOGNITION OF THIS PROGRESS, EXIMBANK WILL ANNOUNCE SHORTLY THAT WE WILL ACCEPT PRELIMINARY COMMITMENT APPLICATIONS FOR MEDIUM AND LONG-TERM COVER FOR BRAZILIAN PUBLIC AND PRIVATE BUYERS. HOWEVER, ANY APPLICATIONS WE RECEIVE WILL BE HELD UNTIL THE FINAL STEP IN BRAZIL'S NORMALIZATION PROCESS -- A PARIS CLUB RESCHEDULING -- HAS BEEN TAKEN. UPON THE CONCLUSION OF A PARIS CLUB DEBT RESCHEDULING, I WILL ANNOUNCE THAT WE HAVE RESUMED COVER AND THE TRANSACTIONS WILL BE PRESENTED TO THE BANK'S BOARD OF DIRECTORS FOR CONSIDERATION. I REPEAT, NO COMMITMENTS WILL BE AUTHORIZED UNTIL AFTER THE PARIS CLUB AGREED MINUTE IS SIGNED.

I WANT TO EXTEND EXIMBANK'S APPRECIATION FOR THE COOPERATION OF THOSE AGENCIES WHICH MAINTAINED AN ESSENTIALLY UNIFIED COVER POLICY IN THIS MARKET SINCE EARLY 1986. WE ARE PLEASED THAT OUR EFFORTS, IN CONSORT WITH THOSE OF OTHER EXPORT CREDIT AGENCIES, HAVE BEEN INSTRUMENTAL IN RETURNING BRAZIL TO THE STATUS OF A RESPONSIBLE INTERNATIONAL BORROWER.

REGARDS, JOHN A. BOHN, JR., PRESIDENT AND CHAIRMAN, EXIMBANK

77c

cc: Messrs. Bohn, Ryan, Sharpe, [REDACTED], Charamella, Forbord, Leik, Hunt, Lentz, Morris, Mrs. Walsh, Dr. Rodriguez, Files

PLEASE TYPE //C ON THE LINE FOLLOWING THE LAST LINE OF MESSAGE. IF MORE THAN ONE PAGE, TYPE /// AT THE END OF EVERY PAGE, THEN //C AT THE END OF MESSAGE.

TYPE WITHIN BORDERS--USE SINGLE VERTICAL SPACING. DOUBLE SPACING BETWEEN PARAGRAPHS

THE OFFICE OF PUBLIC AFFAIRS  
TELEPHONE: (202) 566-8990

FOR IMMEDIATE RELEASE:  
July 11, 1988

### EXIMBANK TO ACCEPT APPLICATIONS FOR COVER ON EXPORTS TO BRAZIL

The Export-Import Bank of the United States and the Foreign Credit Insurance Association (FCIA) will accept applications for medium and long-term financial support of U.S. export sales to Brazil, John A. Bohn, Jr., Eximbank President and Chairman, announced today.

Mr. Bohn said, "We are encouraged by the Government of Brazil's recent actions to rejoin the international financial community while at the same time establishing sound policies for domestic economic reform. The June 22, 1988, agreement for a commercial bank rescheduling and new money facility, and the recent recommendation by the IMF Managing Director to the IMF Executive Board that they approve a standby agreement with Brazil are significant steps. While awaiting further necessary steps towards reestablishment of Brazil's international financial standing -- the approval of the Brazilian Program by the Executive Board of the International Monetary Fund and the rescheduling of some official debt service payments through the Paris Club -- Eximbank and FCIA are now prepared to accept applications under their medium and long-term insurance, guarantee, and direct lending programs. Eximbank's usual credit standards will apply in all cases. These applications will be processed, but will not be presented to the Bank's Board of Directors until the completion of a Paris Club official debt

- MORE -

**EXIMBANK**

EXPORT-IMPORT BANK OF THE UNITED STATES  
811 VERMONT AVENUE, NW  
WASHINGTON, DC 20571

rescheduling. The Paris Club could consider Brazil's rescheduling request as early as the end of July, soon after the IMF's Executive Directors approve the recently proposed standby financing agreement with Brazil."

"We welcome Brazil's progress with its international creditors and stand ready to do our part to assist in the implementation of these new policies," concluded Chairman Bohn.

Eximbank's cover policy for Brazil, effective immediately, is as follows:

Short-Term

No special conditions. (Short-term insurance cover remains available for creditworthy public and private buyers.)

Medium and Long-Term

Eximbank will accept and process preliminary commitment applications for medium and long-term guarantees and direct lending and for advance commitment applications for medium-term single and repetitive FCIA export credit insurance policies. Cover applications for both public and private buyers will be accepted. Upon the conclusion of a Paris Club official debt rescheduling, the applications will be presented to the Bank's Board of Directors for consideration.

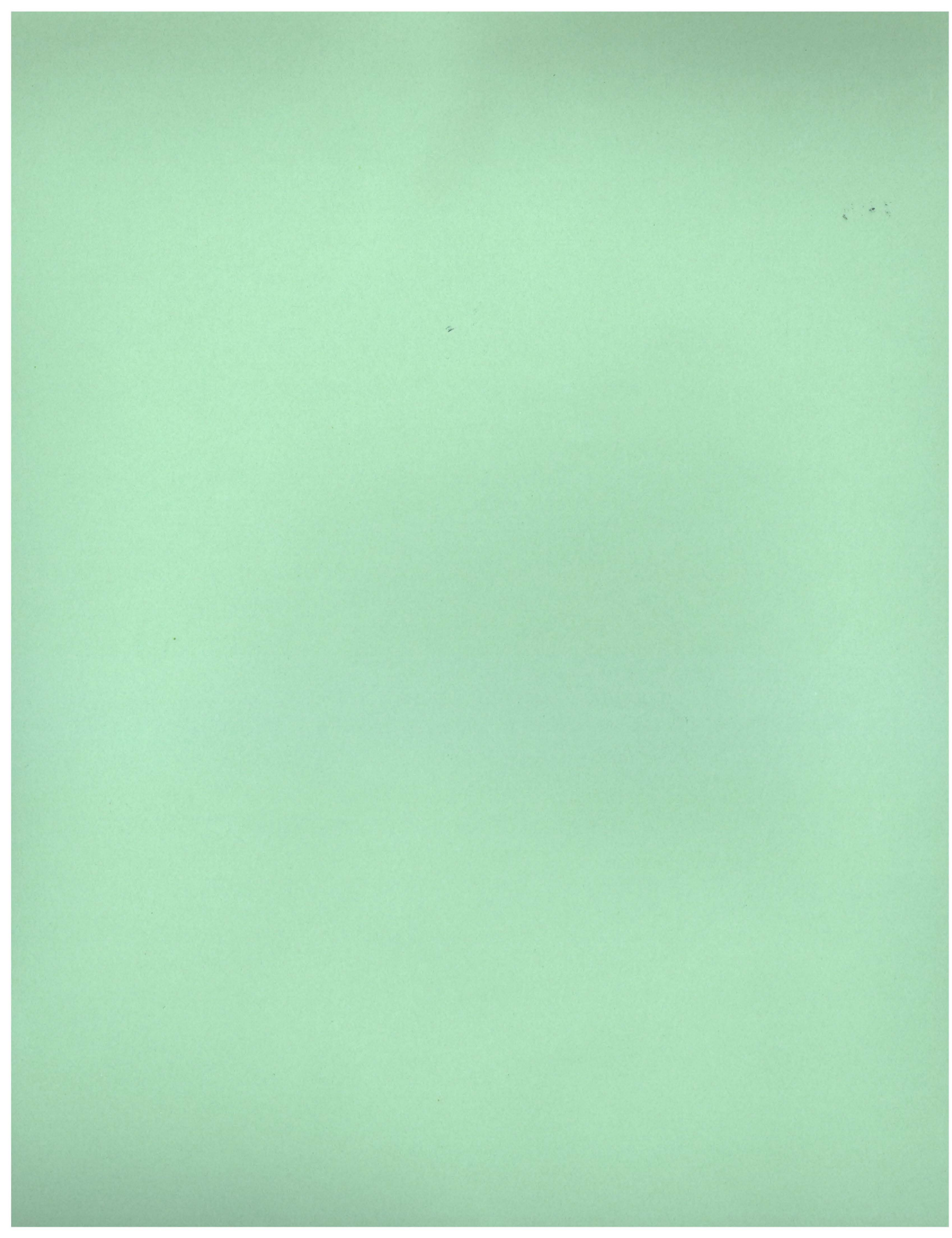
- MORE -

- 3 -

Further information on Eximbank's procedures for Brazilian transactions is available from the U.S. Embassy in Brasilia and from Eximbank's Loan Officer for Brazil, Mr. John W. Lentz, telephone: 202-566-8978. For information on medium-term FCIA insurance coverage for Brazilian transactions, contact Mr. Bruce R. Hunt, Deputy Vice President, Eximbank Insurance Division, telephone: 202-566-8842.

- END -





Mr Johnson



# Office Memorandum

TO: Mr. Reichmann

June 30, 1988

FROM: Eduard Brau *E*

SUBJECT: Brazil--Staff Report for Request for Stand-By Arrangement

The report is professionally written and I would commend in particular the presentation on pages 8-9, repeated in the staff appraisal, explaining openly the holding/containment nature of the initial phase of the program, pending decisive action. At this stage, there is always a temptation to oversell, and I regard it as critical, when you take account of comments, that the holding/containment flavor be clearly preserved. You will recall that the Managing Director told the Minister that, and I paraphrase, "We will tell the world that the 1988 program is preparatory to decisive disinflation."

I have two comments of substance on fiscal policy and on financing assurances, and a range of suggestions concerning presentation/classification.

On fiscal policy, we need to be less conditional in the staff appraisal concerning the need for more fiscal action to stay within an operational deficit of 4 percent of GDP. I suggest that we say it is virtually certain that more fiscal action will be needed (i.e., recent trends and discoveries, and likely needed offsets to higher real interest rates on public debt) and that it is, therefore, important to exploit any room for administrative action to stay below expenditure appropriations. This would set the stage for Mr. Kafka's promised statement, which we have agreed to confirm beforehand through a letter from the Managing Director to the Minister. Corresponding adjustments would then be made in the main text.

On financing assurances, I am surprised that outright approval of the arrangement is being recommended in the absence of any assurance, even discussion in the paper, of the acceptance, and timing, of banks at large of the package recommended by the Steering Committee. There needs to be in the main text, and briefly referred to in the staff appraisal, a description of plans for seeking subscriptions to the financing packages, which leads to the conclusion of approval in principle of the arrangement, pending acceptance of critical mass of bank exposure to the package, with an initial time limit which may or may not be 30 days.

Other points:

1. Page 2: An explanation of the phasing of purchases is needed, in particular of the initial disbursement of 25 percent of quota.

2. Page 7, last paragraph: An improvement in the external position should be mentioned among the objectives of the program.

3. Page 11, top: More specificity, including the timing of the reduction of price controls would be helpful.

4. Page 16, top: Add "expected" before "agreements with commercial banks and official creditors." We have some difficulties with the presentation of the monetary program on page 16, particularly with the first sentence of the full paragraph. If anything, currency holdings are certainly demand-determined. We would suggest using the same approach followed in the staff appraisal (page 32, bottom).

5. Page 19, middle paragraph: Is there a difference between the prior approval requirement for imports of key intermediate products, and licensing? Will these intermediate products remain subject to licensing? It should be noted that the licensing system, apart from the capital goods, remains restrictive.

6. Page 20: The phrase "test of national similarity" could be explained. Presumably, it means that importers must give proof that there is no similar of domestic product in the case that they receive duty exemptions.

7. Page 22, top: Add "The program intends to eliminate, and avoid thereafter, external payments arrears."

8. Page 23, first paragraph: The idea that exchange and trade restrictions "help" the balance of payments as against the alternative of exchange rate adjustment, at least implicit in this argument of the authorities, and needs to be countered.

9. Page 24, third paragraph: Redraft: "The program envisages the elimination of all outstanding external payments arrears. It also envisages ...."

10. Pages 23-24: This will require a rewriting explaining the intentions concerning subscriptions to the financing package. In addition, clear distinctions are necessary everywhere between agreement at the Steering Committee level and by banks at large. Also, allusions to the very useful Appendix VI (on the commercial bank package) would be helpful. On that Appendix, we have already suggested to Mr. Oliveros some changes to align language in the Appendix with that used in the bank agreement.

11. Page 27: It would be useful if the assumptions made on page 27 are compared with those of the recent WEO.

12. Page 34, bottom paragraph: It is probably an over-statement to say that the move toward a system of "automatic" approval

of import licenses, and the associated import measures, "are of particular importance."

13. Table 9: I would much prefer the balance of payment for 1988 and 1989 to show an explicit exceptional financing item, which then is picked up in the nicely prepared Table 10.

14. Table 11: Say "floor" on NIR.

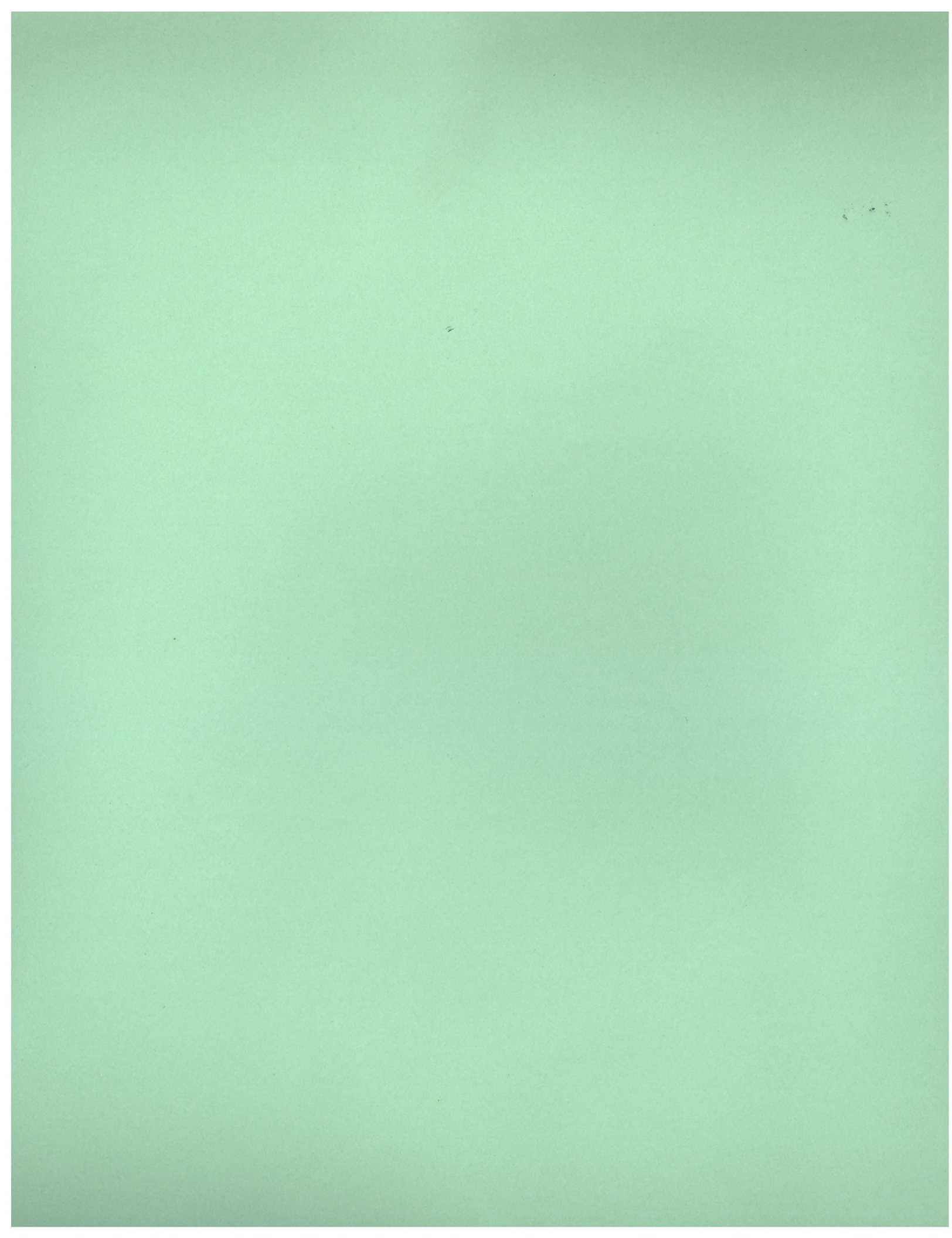
A table showing the schedule of purchases and the conditions attached to those purchases might be added.

On the staff appraisal, I already mentioned the points on fiscal policy and on financing assurances.

On language, I have two suggestions, both on page 31. In the second sentence of the main paragraph, I would not like to show a reference to "political constraint" and would prefer this to be left unsaid. In the last sentence of that paragraph, I would strengthen the word "emphasize" to "underline the critical need." There should also be in the staff appraisal, or earlier in the text, an explicit reference to the fact that the staff recommends temporary approval of the exchange restrictions arising from payments arrears.

As stated earlier, the decision should be redrafted to be consistent with the approval in principle.

cc: Mr. Oliveros



INTERNATIONAL MONETARY FUND

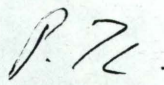
June 29, 1988

Mr. Brau:

Attached are EFD's comments  
on Brazil--Staff Report, which I  
reviewed.

Attachment

cc: Mr. Acquah  
Mr. Watson  
Mr. Quirk  
Mr. Fajgenbaum  
Mr. Oliveros

  
**Peter M. Keller**

June 29, 1988

Brazil--Comments on the Staff Report

We do not like the inclusion of anticipated debt relief in the capital account in Table 9.

Debt relief should be shown separately as exceptional financing below the line. Also it is not appropriate to treat the expected Paris Club as a "fait accompli." Expected debt relief should be clearly shown as a working assumption made by the staff.

In Table 11, it would be better to refer to a "floor" rather than a "limit" on net international reserves (as does the text on the following page).

On a general point, how can Brazil sustain the external balance if the huge internal imbalance persists?



# Office Memorandum

Mr. Johnson

TO: Mr. Brau

June 29, 1988

FROM: C. M. Watson *CMW*

SUBJECT: Brazil--Staff Report: Request for SBA

1. On substance:

--I am concerned that the bank agreement (which I read last night) inhibits Brazil's ability to make early repurchases in the Fund. I believe we should alert the DMD to this.

--The debt/export swaps under consideration look problematic (export subsidy/multiple currency practice).

2. As regards presentation of the linkage issue:

--Allude in the main text to the somewhat more flexible linkage, about which Directors will be curious, and refer to the Appendix VI (usefully sets out key elements of the commercial bank package).

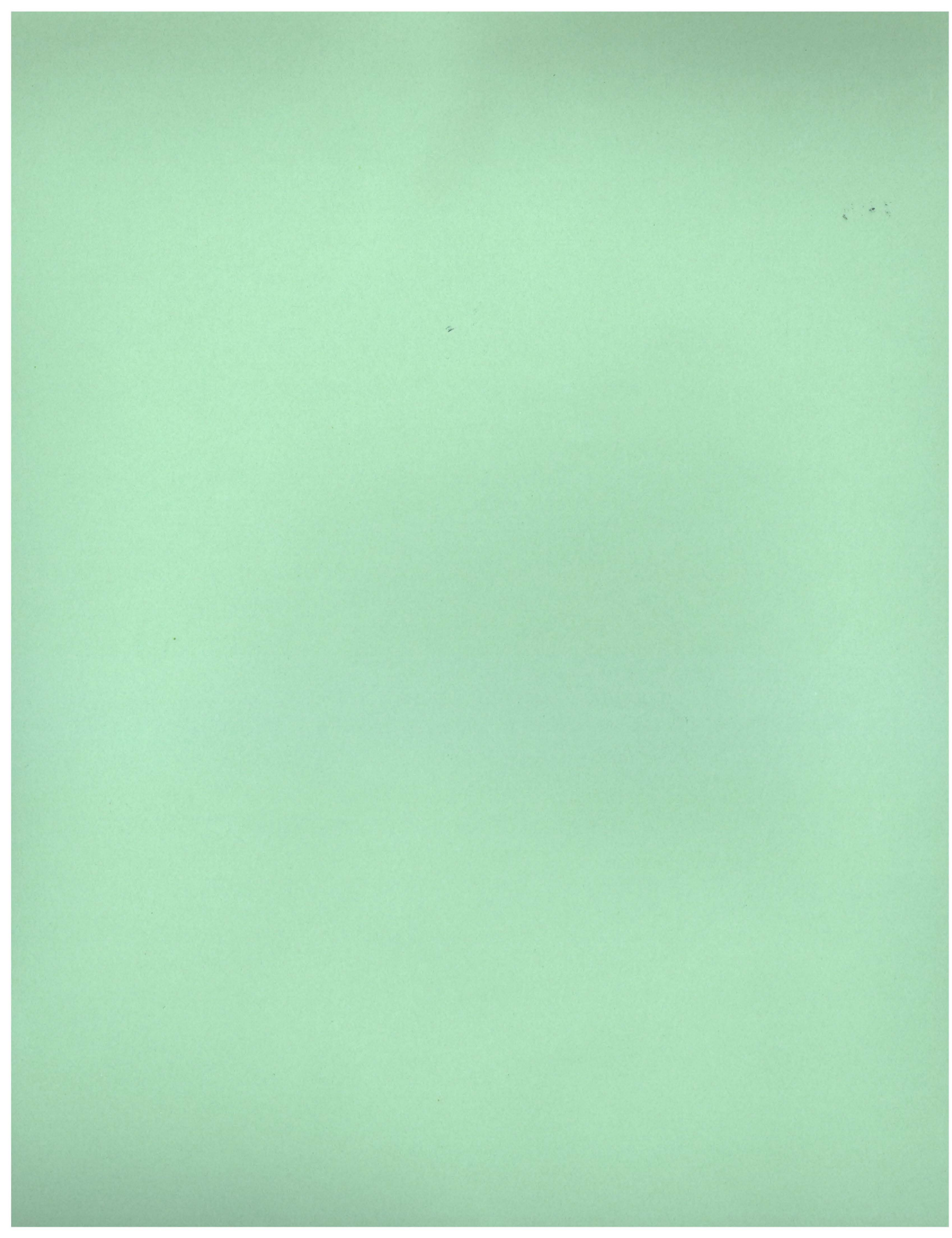
--Align the Appendix wording with the bank agreement on the crucial linkage points: (a) the "parallel" process of Board approval first bank disbursement; and, more importantly, (b) the nature of the MD's report in connection with the second bank disbursement.

--Prepare and clear with ETR and the DMD a staff reply on the meaning of the MD's report and the circumstances in which it might or might not be given.

--By contrast, I see no real need to suggest introducing a reference to the provision for Brazil to possibly request enhanced surveillance in the future (but a staff reply should be to hand).

cc: Mr. Acquah  
Mr. Johnson ✓  
Mr. Quirk  
Mr. Fajgenbaum  
Mr. Oliveros





Mr. Johnson



# Office Memorandum

TO: Mr. Reichmann

June 24, 1988

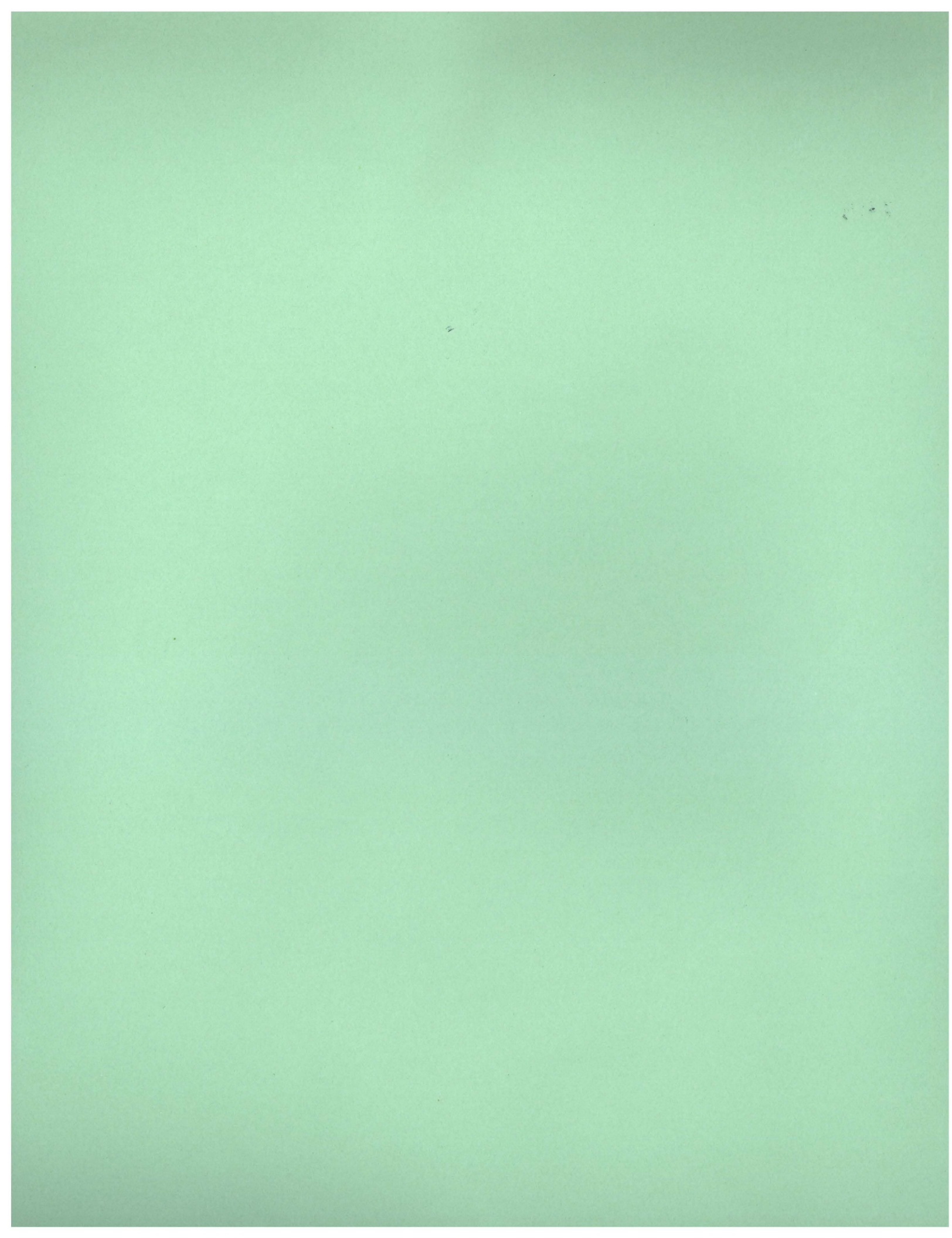
FROM: Eduard Brau *EB*

SUBJECT: Brazil--Request for Stand-By Arrangement

My concern relates to the fiscal position. Against the background of the mission's earlier assessment that no margin was left under the operational deficit limit of 4 percent of GDP, logic now compels me to the conclusion that the ex ante probability, on present policies, of adherence to the fiscal program is way below 50 percent. Present policies may indeed yield an operational deficit of around 4.5 percent of GDP. Additional fiscal action seems to be called for, in particular by seeking an assurance now that the under-execution on non-wage and non-interest expenditures to date would indeed be maintained through 1988. To this end, lines 18 to 19 on page 2 could be redrafted to read: "b. Introduction on May 20 and July .., 1988 of cutbacks equivalent to 1.2 percent of GDP in non-wage and non-interest expenditures of the Central Government." Also, "8 percent" would need to be substituted for "7.6 percent" in line 11 on page 2.

I would think this to be an explicit confirmation of what appear to be the authorities' intentions and not a new demand on our part introduced at a late stage in the discussions.

Also, I suggest redrafting lines 16 to 18 of paragraph 10 to read "The successful conclusion of the negotiations with foreign banks and Paris Club creditors will result in the elimination by end-December 1988 and continued avoidance of external payments arrears." In support of this, the elimination of external arrears by end-December should be mentioned in the Technical Memorandum.



INTERNATIONAL MONETARY FUND

June 24, 1988

*cei/pl*

Mr. Pujol:

Attached are EFD's comments  
on Brazil--Request for Stand-By  
Arrangement, which I reviewed.

Attachment

cc: Mr. Quirk  
Mr. Allen  
Mr. Oliveros

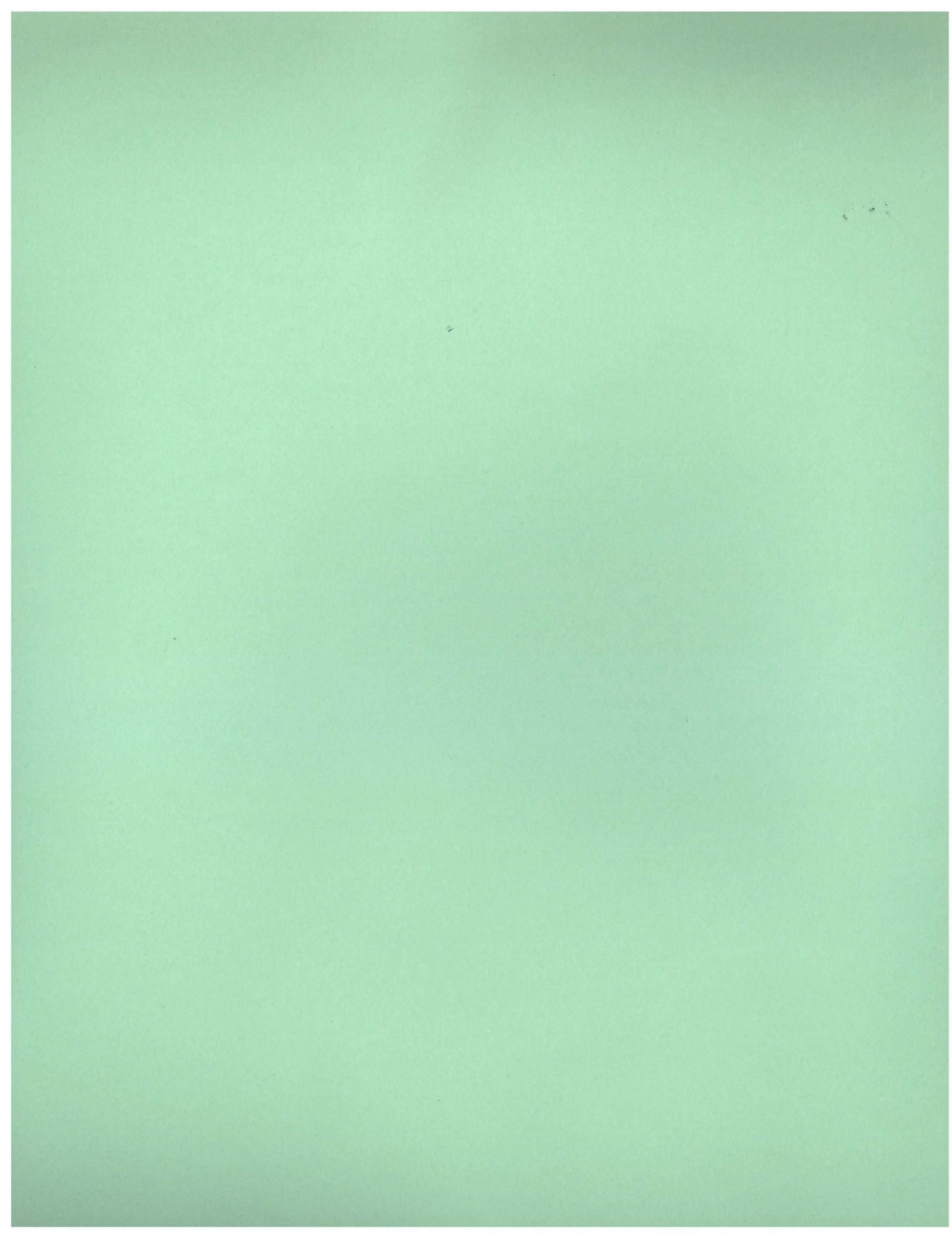
*A.K.* for G. G. Johnson

June 24, 1988

Brazil--Request for Stand-By Arrangement

Two points bearing on the nature of debt ceilings for reference in future programs:

1. The medium- and long-term ceilings include private debt, which is made possible by Brazil's comprehensive debt registration system. While Brazil's continuing debt crisis presumably justifies such a comprehensive approach, one wonders whether it is entirely consistent with a program that is predicated on the principle of reducing state intervention in the economy. It also comes at a time when foreign export credit agencies are anxious to shift their financing more toward private sector borrowers. Is there some expectation that the private sector will be relatively free to borrow abroad, with the public sector having access only to the residual?
2. ~~Logically~~, exclusion of amortization due to debt equity conversion (Table 3, footnote 1) should not apply to amortization that was otherwise scheduled to take place during the program period; but in quantitative terms this is presumably a minor wrinkle.



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*Mr. Simpson*

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23 MR. WILLIAM RHODES **RECEIVED**

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21 CITICORP CENTER **EXCHANGE AND TRADE**

20 155 EAST 53RD STREET **RELATIONS DEPT.**

19 NEW YORK, N.Y. 10022

Mr. Simpson

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18 AS HAS BEEN AGREED, THE TEXT THAT FOLLOWS WOULD BE

17 FOR DISTRIBUTION TO THE INTERNATIONAL BANKS THAT WILL BE

16 PARTICIPATING IN THE NEW FINANCIAL PACKAGE FOR BRAZIL.

15 QUOTE I WISH TO INFORM YOU ABOUT RECENT ECONOMIC

14 DEVELOPMENTS IN BRAZIL AND ABOUT THE PRESENT STATUS OF OUR

13 DISCUSSIONS WITH THE BRAZILIAN AUTHORITIES ON AN ECONOMIC

12 PROGRAM THAT COULD QUALIFY BRAZIL FOR FUND SUPPORT UNDER A

11 STAND-BY ARRANGEMENT.

10 ECONOMIC DEVELOPMENTS IN BRAZIL IN 1987 WERE

CHARACTERIZED BY A RESURGENCE OF HIGH INFLATION AND A

8 SLOWDOWN OF ECONOMIC ACTIVITY. THESE DEVELOPMENTS WERE IN

7 LARGE PART THE CONSEQUENCE OF THE IMBALANCES THAT HAD BEEN

6 CAUSED IN 1986 BY THE PROLONGED RELIANCE ON A PRICE FREEZE

5 IN A SITUATION IN WHICH AGGREGATE DEMAND AND WAGES WERE

4 BOOSTED SUBSTANTIALLY. INFLATION ACCELERATED TO 365

3 PERCENT DURING 1987 AND DURING THE FIRST FOUR MONTHS OF

2 1988 THE AVERAGE RATE OF PRICE INCREASE HAD RISEN TO MORE

1 THAN 17 PERCENT A MONTH. IN TURN, REAL GDP, WHICH HAD

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18 GROWN BY MORE THAN 3 PERCENT A YEAR IN THE PRECEDING TWO  
17 YEARS, ROSE BY LESS THAN 3 PERCENT IN 1987. THE SLOWDOWN  
16 OF ECONOMIC ACTIVITY CONTINUES IN 1988.  
15 THE ECONOMIC IMBALANCES OF 1986 RESULTED IN A SHARP  
14 DETERIORATION OF BRAZIL'S EXTERNAL POSITION, WITH THE  
13 TRADE SURPLUS DECLINING BY USDOLLARS 4.3 BILLION TO  
12 USDOLLARS 3.3 BILLION AND GROSS INTERNATIONAL RESERVES, AS  
11 MEASURED BY THE FUND, DROPPING FROM USDOLLARS 9.3 BILLION  
10 AT THE END OF 1985 TO USDOLLARS 4 BILLION IN MARCH 1987.  
9 IN 1987, THE REDUCTION IN THE GROWTH OF REAL DOMESTIC  
8 DEMAND, THE RECORD HARVESTS AND THE EXCHANGE RATE POLICY  
7 THAT WAS FOLLOWED CONTRIBUTED TO A RECOVERY OF THE TRADE  
6 SURPLUS TO USDOLLARS 11.2 BILLION AND TO A REDUCTION IN  
5 THE CURRENT ACCOUNT DEFICIT FROM USDOLLARS 4.8 BILLION IN  
4 1986 TO USDOLLARS 1.3 BILLION IN 1987. BY THE END OF 1987  
3 GROSS INTERNATIONAL RESERVES, AS MEASURED BY THE FUND, HAD  
2 RECOVERED TO USDOLLARS 6.8 BILLION. HOWEVER, BY THAT DATE  
1 BRAZIL HAD ACCUMULATED EXTERNAL PAYMENTS ARREARS OF  
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18	USDOLLARS 4.6 BILLION.	
17	IN 1988 THE BRAZILIAN GOVERNMENT HAS TAKEN STEPS TO	D
16	DEAL WITH THE DOMESTIC AND EXTERNAL DIFFICULTIES AND HAS	O
15	ELABORATED A PROGRAM AIMED AT AVOIDING AN ACCELERATION OF	T
14	INFLATION, CREATING THE CONDITIONS FOR REDUCING INFLATION,	T
13	RE-ESTABLISHING ECONOMIC GROWTH ON A SUSTAINED BASIS,	Y
12	REDUCING DISPARITIES IN INCOME DISTRIBUTION AND	P
11	MAINTAINING A STRONG EXTERNAL PERFORMANCE.	E
10	THE GOVERNMENT'S PROGRAM EMPHASIZES THE REDUCTION IN	H
9	THE FISCAL DEFICIT AS A MEANS OF OPENING ROOM FOR PRIVATE	E
8	SECTOR ACTIVITY AND TO PERMIT A MONETARY POLICY CONSISTENT	R
7	WITH A REDUCTION OF INFLATION. THE AUTHORITIES HAD	E
6	PROJECTED THAT, IN THE ABSENCE OF ADDITIONAL MEASURES, THE	R
5	OPERATIONAL DEFICIT OF THE PUBLIC SECTOR IN 1988 WOULD	E
4	RISE TO MORE THAN 7.5 PERCENT OF GDP, FROM 5.5 PERCENT IN	R
3	1987, MAINLY BECAUSE OF AN INCREASE IN WAGE EXPENDITURES	E
2	AND THE EROSION OF REAL TAX REVENUE CAUSED BY INFLATION.	R
1	TO ARREST THIS DETERIORATION, THE AUTHORITIES HAVE	E
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18	IMPLEMENTED MEASURES THAT INCLUDED CUTS IN EXPENDITURES, A	MARK XX FOR CODE ( ) CODE  DISTRIBUTION  N O T  T Y P E  H E R E
17	TWO-MONTH WAGE FREEZE FOR FEDERAL EMPLOYEES, LIMITS ON	
16	CREDIT TO PUBLIC ENTERPRISES AND TO STATES AND	
15	MUNICIPALITIES, AND THE ELIMINATION OF SUBSIDIES. WITH	
14	THESE MEASURES, THE AUTHORITIES EXPECT TO LIMIT THE	
13	OPERATIONAL DEFICIT IN 1988 TO 4 PERCENT OF GDP. THE	
12	GOVERNMENT'S PROGRAM ENVISAGES A SUBSTANTIAL FURTHER	
11	IMPROVEMENT IN THE FISCAL POSITION IN 1989.	
10	THE GOVERNMENT'S PROGRAM ALSO CONTEMPLATES MEASURES	
9	THAT WOULD CREATE THE CONDITIONS FOR A MORE ACTIVE USE OF	
8	MONETARY POLICY TO HELP RESTRAIN INFLATION.	
7	SIGNIFICANT STRUCTURAL REFORMS DESIGNED TO LIBERALIZE	
6	AND MODERNIZE THE ECONOMY ARE PART OF THE PROGRAM. THESE	
5	REFORMS, WHICH HAVE ALREADY BEEN INTRODUCED OR ARE IN AN	
4	ADVANCED STAGE OF PREPARATION, INCLUDE, IN THE DOMESTIC	
3	AREA, PRIVATIZATION OF PUBLIC ENTERPRISES, A NEW	
2	INDUSTRIAL INCENTIVE POLICY, AND A REFORM OF THE FINANCIAL	
1	SYSTEM. THE REFORMS ANNOUNCED IN THE EXTERNAL AREA AIM AT	
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WASHINGTON, D. C. 20431

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17	THE EFFICIENCY OF THE ECONOMY AND INCLUDE, AMONG OTHERS, A	
16	NEW TARIFF SCHEDULE, A LOWERING OF MINIMUM FINANCING	
15	REQUIREMENTS, THE LIBERALIZATION OF TRADE IN FOUR MAJOR	
14	AGRICULTURAL COMMODITIES, AND THE ELIMINATION OF PRIOR	
13	CONTROLS ON A SIZABLE NUMBER OF EXPORTS.	
12	THE AUTHORITIES ENVISAGE A FURTHER STRENGTHENING OF	
11	THE EXTERNAL POSITION IN 1988. THE TRADE SURPLUS IS	
10	PROJECTED TO INCREASE TO SOME USDOLLARS 13 BILLION, WHICH	
9	WOULD RESULT IN A CURRENT ACCOUNT DEFICIT OF USDOLLARS 1.5	
8	BILLION, EQUIVALENT TO 0.5 PERCENT OF GDP. THIS DEFICIT	
7	WOULD BE CONSISTENT WITH NO CHANGE IN GROSS INTERNATIONAL	
6	RESERVES IN 1988, PROVIDED THAT THE PROJECTED FINANCING IS	
5	OBTAINED. THE LATTER INCLUDES THE NEW MONEY ENVISAGED IN	
4	BRAZIL'S DISCUSSIONS WITH INTERNATIONAL BANKS, ABOUT	
3	USDOLLARS 2.2 BILLION IN GROSS DISBURSEMENTS OF	
2	MULTILATERAL AGENCIES INCLUDING THE FUND, AND ASSUMES THE	
1	RESCHEDULING OR REFINANCING OF SOME USDOLLARS 11.7 BILLION	
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23	PAGE 4	
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18	OF MATURITIES OWED TO INTERNATIONAL BANKS AND OFFICIAL	D
17	CREDITORS. ATTAINMENT OF THE PROJECTED CAPITAL FLOWS	O
16	WOULD PERMIT THE ELIMINATION OF THE ARREARS ACCUMULATED	T
15	SINCE THE BEGINNING OF 1987. A FURTHER STRENGTHENING OF	Y
14	THE TRADE PERFORMANCE IS PROJECTED FOR 1989,	P
13	NOTWITHSTANDING THE INCREASE IN IMPORTS THAT WOULD RESULT	E
12	FROM THE LIBERALIZATION MEASURES THAT ARE BEING PUT IN	H
11	PLACE.	E
10	IN RECENT MONTHS THE MANAGEMENT AND THE STAFF OF THE	R
9	FUND HAVE HAD EXTENSIVE DISCUSSIONS WITH THE BRAZILIAN	E
8	AUTHORITIES ON THE POLICIES BEING ADOPTED TO REDRESS THE	T
7	ECONOMIC SITUATION, REDUCE INFLATION AND ESTABLISH THE	Y
6	BASIS FOR SUSTAINED ECONOMIC GROWTH. THE MOST RECENT	P
5	DISCUSSIONS HAVE JUST BEEN HELD IN BRASILIA ON THE BASIS	E
4	OF THE PROGRAM ELABORATED BY THE GOVERNMENT. I AM	H
3	SATISFIED THAT THE PROGRESS MADE PERMITS ME TO EXPECT	E
2	THAT, ONCE A FEW MINOR TECHNICAL QUESTIONS ARE RESOLVED, I	R
1	WILL BE IN A POSITION IN THE COMING WEEKS TO PRESENT	E
A	SPECIAL INSTRUCTIONS	T
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18 BRAZIL'S REQUEST FOR A STAND-BY ARRANGEMENT FOR THE  
17 CONSIDERATION OF THE EXECUTIVE BOARD OF THE FUND, WITH A  
16 VIEW TO REACHING A DECISION ON THIS REQUEST IN THE LATTER  
15 PART OF JULY.  
14 ACCORDING TO OUR NORMAL RULES AND PRACTICES, THE  
13 EXECUTIVE BOARD OF THE FUND ONLY APPROVES PROGRAMS THAT  
12 ARE ADEQUATELY FINANCED. THUS, I WOULD URGE THE  
11 INTERNATIONAL FINANCIAL COMMUNITY TO MAKE EVERY POSSIBLE  
10 EFFORT TO SECURE IN TIME THE FINANCING THAT IS PROJECTED  
9 IN THE PROPORTION ENVISAGED FOR EACH PARTICIPANT.  
8 REGARDS. CAMDESSUS. UNQUOTE.  
7 REGARDS.  
6 ERB  
5 INTERFUND

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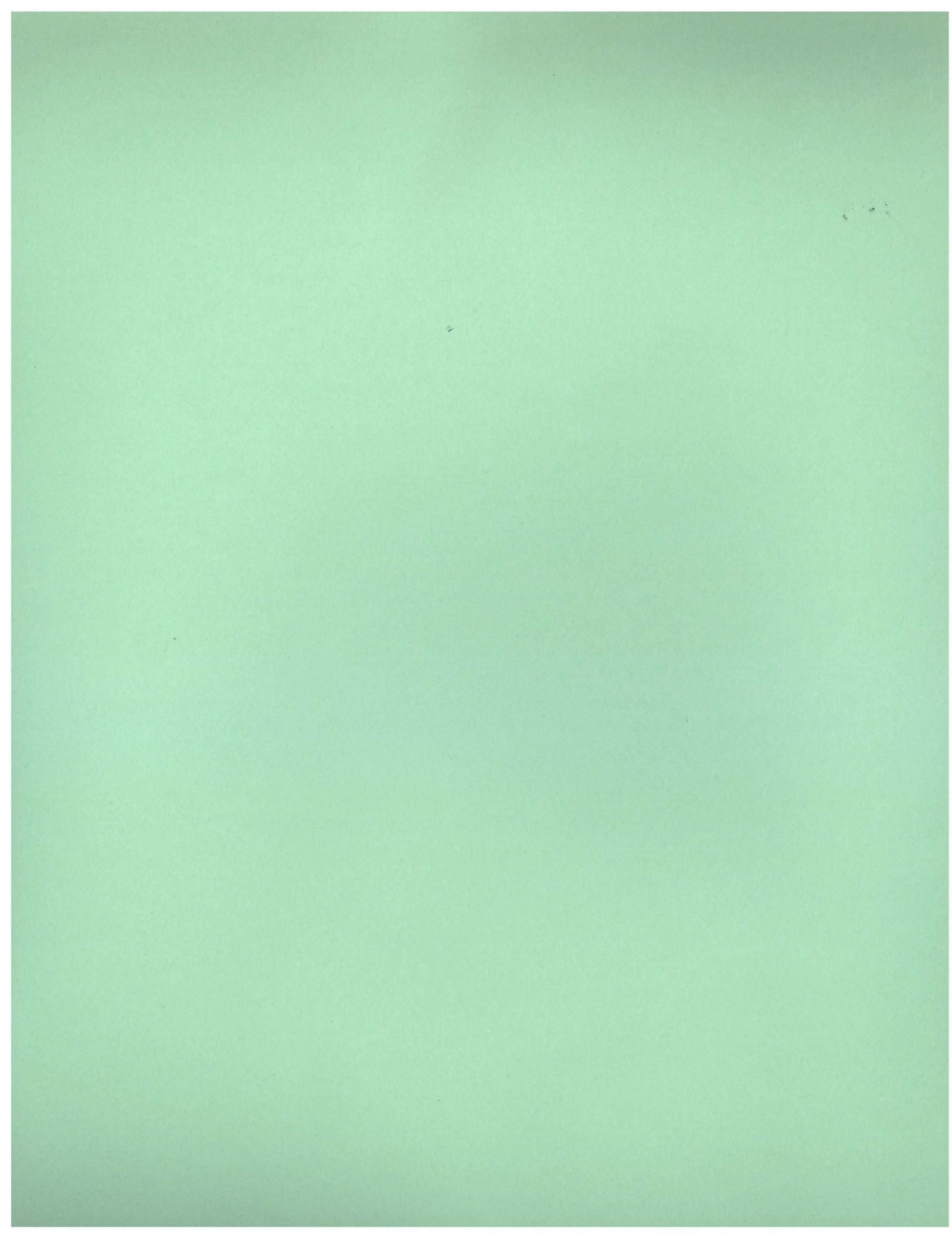
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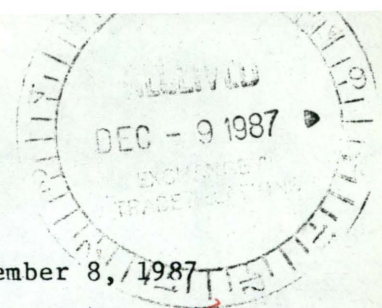
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cc: Mr. Stein  
Mr. Angerie

# Office Memorandum



TO: The Managing Director  
FROM: S. T. Beza *SB*  
SUBJECT: Mission to Brazil

Mr. Belanger  
Ms. Dillon  
Mr. Oliveros  
KTR 1/2

DATE: December 8, 1987

~~1. CVC~~  
2. File: Brazil  
Comments

Attached is the debrief of the mission that just returned from Brazil. The debrief notes the marked **loss of political power** of the Government and raises questions about the chances that a satisfactory program would be implemented. In these circumstances, to obtain reasonable assurances about program implementation **a period of performance prior to the entry into force of a formal arrangement would seem to be required.**

The latest information is that **inflation is rising again** because of wage pressures and shortcomings in financial policies. Inflation in November was almost 13 percent and it could easily move above 20 percent a month in early 1988. At the same time, economic activity appears to be undergoing a slowdown.

**The authorities** have ruled out the kind of program that would be needed to produce a decisive attack on inflation, and are attempting to frame policies that would **seek to contain inflation at about the present rate.** They would rely on the existing flexible exchange rate policy to preserve the gains attained in the external area. The authorities are considering a fiscal package that might include new taxes and cuts in subsidies and tax exemptions, but the package is far from settled. A new wage-price freeze may be attempted, even though Brazilian officials acknowledge that present conditions are not conducive to the use of that approach.

In the external area, there was a considerable strengthening of the trade performance in 1987, with the **trade surplus now estimated at US\$11 billion** (up from US\$8.3 billion in 1986). On this basis the current account deficit in 1987 is likely to be US\$1.5 billion. For 1988 the staff considers that a further increase in the trade surplus (to about US\$12 billion) is attainable, which probably would still involve some rise in the current account deficit because of the expected increase in interest rates (the renegotiation of spreads could affect this outcome by the second half of 1988).

As the table appended to the debrief indicates, the unfinanced gap for 1988 is sizable, given the arrears carried over, debt amortization payments to the Paris Club countries, and repurchases from the Fund. Nevertheless, **if a suitable economic program were agreed, conclusion of a financing package probably would not pose a major problem.**

**The authorities told the mission that they wanted to enter into a Fund program** and reiterated their view that disbursements from

commercial banks should not be linked to the performance under such a program. The mission emphasized the many uncertainties that would need to be resolved before a program could be negotiated, but the authorities are likely to continue to press management and staff for key targets such as the permissible public sector deficit in 1988.

Attachment

cc: The Deputy Managing Director (o/r)  
Mr. Simpson





# Office Memorandum

CONFIDENTIAL

TO: The Managing Director

DATE: December 8, 1987

FROM: T. Reichmann *TR*

SUBJECT: Mission to Brazil

A staff mission visited Brazil from November 23 through December 4, 1987 to review recent developments and to hold exploratory discussions with the authorities on the contents of an economic program that could be supported by the Fund.

Any review of the present situation must note the marked **weakening of the power of the Government**. High Brazilian officials variously mentioned that the Government was weak, had lost its political base, and lacked credibility and support. The private sector (both business and the unions) is tending to ignore government decisions and there is a growing tendency to challenge government policies in the courts. In this situation, and with **the resurgence of high inflation**, most officials we met with were pessimistic about the outlook for 1988. It needs also to be borne in mind that the Constitutional Assembly recently agreed to a draft provision (which seems likely to be passed) limiting President Sarney's term of office to four years (i.e., until March 1989). This would mean that presidential elections (together with scheduled municipal elections) would probably be held in November 1988.

The authorities agree that a **runaway wage-price spiral is a major threat**. Inflation in November was 12.8 percent and it is expected to reach 15 percent in December; in early 1988 it could move well above 20 percent a month. In spite of the concern with which they view inflation, Brazilian officials seem to be at a loss on what to do about it, particularly in regard to wage policy. It seems as though no one is in a position to speak authoritatively for the Government in this area.

The mission raised for discussion the possibility of a decisive attack on inflation based on the elimination of the operational fiscal deficit and on a very tight monetary policy that in its initial stages could be accompanied by a wage-price freeze. The authorities ruled out this approach on the grounds that they were unable at present to eliminate the deficit and because of a fear on their part that such a program would initially lead to recession. There has already been a marked slowdown in the level of economic activity, **with real GDP growth in 1987 estimated at about 3 percent, down from more than 8 percent a year in the previous two years.**

The authorities generally see their options limited to a significantly less ambitious program than the one just referred to. They would seek some reduction in the operational deficit that would permit a more restrained monetary policy, and would rely on the existing

flexible exchange rate policy to preserve the gains attained in the external area. They would not expect such a program to make much headway in reducing inflation, but would hope that it would avoid inflation running out of control. They also acknowledged that the kind of program that they could envisage might not be the most favorable from the standpoint of economic activity. There is virtual consensus that in present circumstances a new freeze would lack credibility and might not be respected by the market; nevertheless, we got the impression that Minister Bresser may be waiting for the right political moment to attempt once again such an approach.

In the area of fiscal policy, staff estimates point to an operational deficit in 1987 of about 5 percent of GDP, which compares with a deficit of 3.9 percent in 1986 and the authorities' 1987 target of 3.5 percent. With such a result and a projected inflation of some 370 percent during the 12 months ending December 1987, the PSBR in 1987 is estimated at some 35 percent of GDP.

The mission's analysis of the prospective fiscal situation was made difficult by the absence of definitions in many key areas. The 1988 budgets of the central government and the federal public enterprises are already out of date as they were elaborated with a now unrealistic inflation hypothesis. The authorities are considering a fiscal package that may include some new taxes and cuts in subsidies and tax exemptions; however, the specific components of such a package have not been defined yet and estimates of yields are lacking. Also, there may be some savings in 1988 stemming from actions taken in June 1987 to eliminate subsidies on agricultural credit (which amounted to 0.7 percent of GDP in 1987) and to curb expenditures for the recapitalization of state banks (0.4 percent of GDP in 1987). A planned improvement in the financial position of federal public enterprises would depend on the early realignment of the tariffs charged by the main enterprises. The increase in the transfer of revenues from the Central Administration to states and municipalities that is likely to be mandated by the new constitution (in 1988 alone such transfers would amount to 0.7 percent of GDP) would have a negative effect on the fiscal situation unless measures are taken to arrange for a corresponding transfer of responsibilities to these entities. The authorities feel that the present political situation provides no scope for significant reductions in current expenditures.

All in all, the measures already in place and those under consideration could at best yield an improvement in the operational result of some 3 percentage points of GDP. However, there is a very high degree of uncertainty attaching to each possible area of improvement and, in the present political climate, there are considerable risks of slippage in other areas of public operations.

Monetary policy in 1987 has been affected by pressures stemming mainly from the fiscal situation and the credit needs of

agriculture. Beginning January 1, 1988 the Central Bank is to shed the parafiscal operations that have been under its purview, including the transfer to the Treasury of the authority to issue public debt. While this opens the possibility for a more independent credit policy, it has to be recognized that the chances for credit restraint depend in large measure on fiscal performance.

In the external area the strengthening of the trade balance since May has helped to reduce the external current account deficit to an estimated US\$1.5 billion (0.5 percent of GDP) in 1987. The trade surplus would amount to US\$11 billion, which compares with a surplus of US\$8.3 billion in 1986. The staff considers that a further strengthening to about US\$12 billion is attainable in 1988, provided that external competitiveness is preserved and domestic demand is curbed. Such a result would offset in part the projected increase in interest payments in 1988 and would help to limit the current account deficit next year to about US\$2 billion. The authorities envisage a trade surplus of less than US\$10 billion for 1988, and thus they see a greater need than the staff for new money from private and official sources.

According to staff projections for 1988 (Table 1), the current account deficit (US\$2 billion), the repayment of accumulated arrears (US\$4.2 billion), repurchases from the Fund (US\$0.9 billion), and other capital flows net of amortization to banks (net outflow of US\$1.3 billion) would give rise to a financing gap in 1988 of US\$8.4 billion. A possible scenario on how this gap could be bridged would have the Paris Club rescheduling about US\$2.2 billion, additional flows from Paris Club creditors of some US\$0.5 billion, new disbursements by multilateral agencies of US\$1 billion, Fund resources of US\$0.9 billion (equal to scheduled repurchases in 1988), and less than US\$4 billion to be financed by new money from commercial banks. (It may be noted that the interim agreement with the banks that is likely to be signed next week already covers US\$2 billion of this latter amount).

The authorities indicated their readiness to enter into a formal arrangement with the Fund, but only after there is agreement with commercial banks to eschew linking bank disbursements to performance under the program with the Fund. Minister Bresser mentioned that agreement on this issue does not necessarily have to wait until the finalization of the negotiations with the banks on the contents of the broader financing package, he would actually prefer to see this issue settled by December 15.

In a final meeting with Minister Bresser, the mission made an oral presentation listing the mission's main concerns about the present and prospective situation. In particular, the mission emphasized that, in view of the difficulties of assuring significant progress in the domestic front, there was a question about the basis for a negotiation of a program to support the use of Fund resources. Minister Bresser

acknowledged this point but expressed the hope that, on the basis of the findings of the mission, the Fund would soon be in a position to indicate to the authorities the main parameters (in particular, the operational deficit target) of a possible program. Mr. Kafka can be expected to press for such a definition in the next few weeks.

cc: The Deputy Managing Director (o/r)  
Mr. Beza  
Mr. Frenkel  
Mr. Gianviti

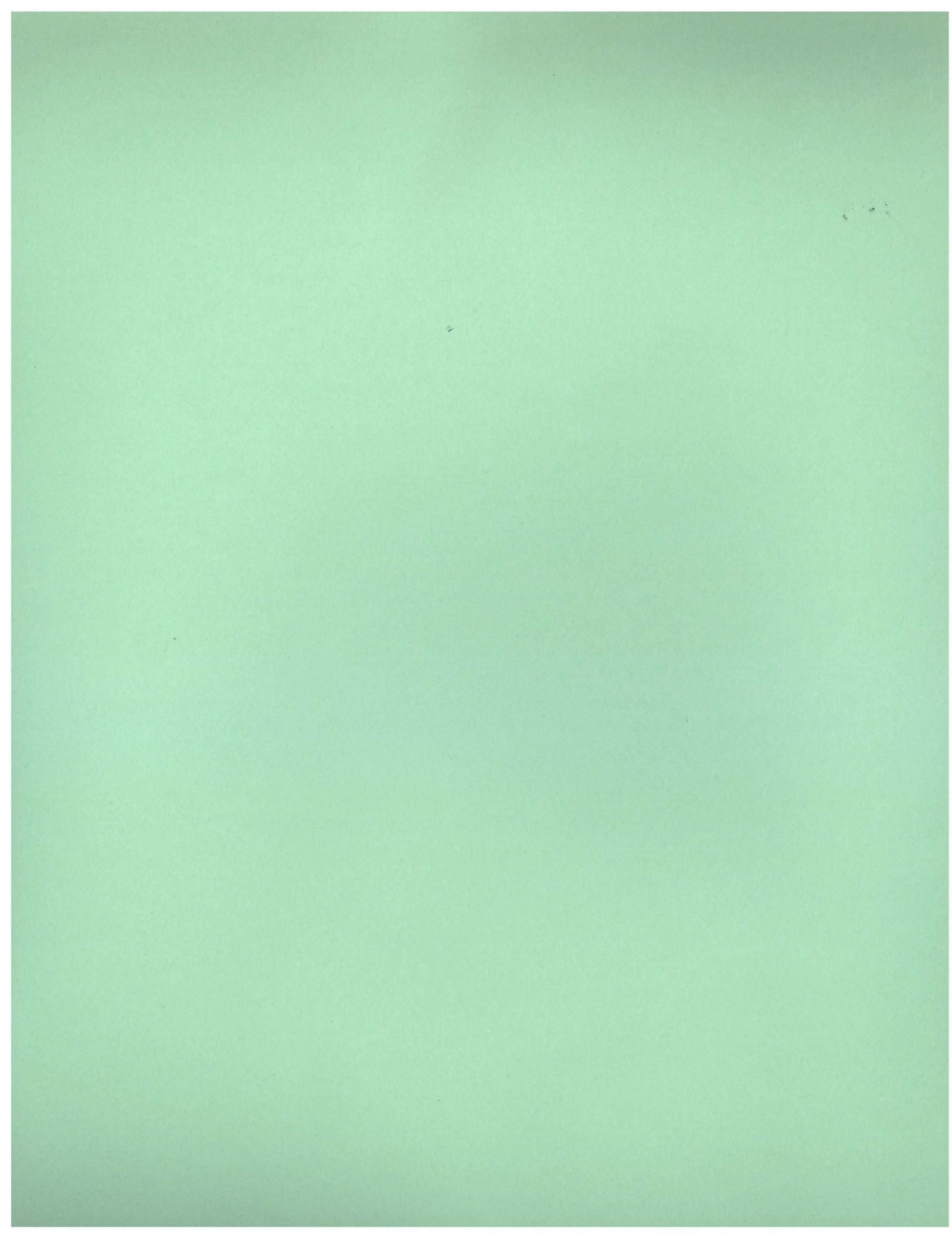
Mr. Laske  
Mr. Tanzi  
✓ Mr. Whittome  
Mr. Simpson

Table 1. Brazil: External Financing Requirements

(In billions of U.S. dollars)

	1987	1988 <u>1/</u>
Current account deficit	1.5	2.0
Increase in gross reserves	1.1	--
Repurchases from IMF	1.1	0.9
Other <u>2/</u>	-0.2	--
<u>Total net requirements</u>	<u>3.5</u>	<u>2.9</u>
Nonconcerted capital flows <u>3/</u>	-1.7	-1.3
Change in arrears	0.6	-4.2
<u>Financing gap</u>	<u>4.6</u>	<u>8.4</u>
<u>Possible financing sources</u>	<u>4.6</u>	<u>8.4</u>
Paris Club rescheduling	3.6	2.2
New financing by Paris Club	--	0.5
New financing by IBRD/IDB	--	1.0
IMF	--	0.9
Commercial banks (interim agreement)	1.0	2.0
Commercial banks (to be negotiated)	--	1.8

1/ Staff projection.2/ Gold monetization and changes in other reserve liabilities.3/ Including the assumed refinancing of principal due to banks.



Brazil: Debt Situation KBD



INTERNATIONAL MONETARY FUND  
WASHINGTON, D. C. 20431

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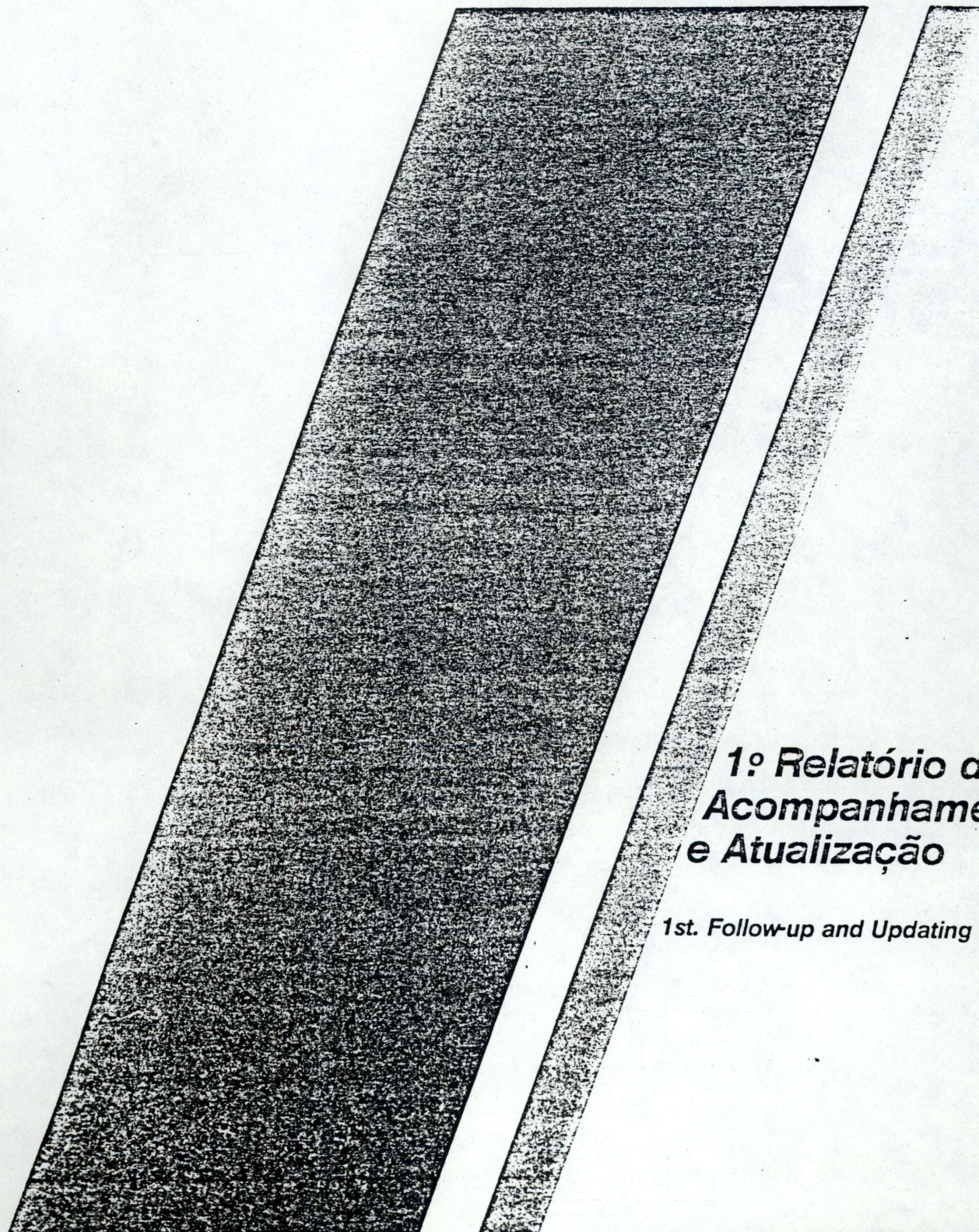
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Department and division (type) ETR-External Finance Division		Extension (type) 6555	
Authorized by (type) K. Burke Dillon		Signature <i>K Burke Dillon</i>	

11. Economia 50

# Plano de Controle Macroeconômico

Macroeconomic Control Plan



**1º Relatório de  
Acompanhamento  
e Atualização**

*1st. Follow-up and Updating Report*



7.1 - BALANÇO DE PAGAMENTOS  
Balance of Payments

US\$ milhões

Item	1985	1986 1/		1987		Item
		1º Sem	Ano	1º Sem 1/	Ano 2/	
Balança Comercial - FOB	12 486	6 169	8 349	3 473	10 200	Trade Balance
Exportações	25 639	12 282	22 393	10 649	25 400	Exports
Importações	13 153	6 113	14 044	7 176	15 200	Imports
Serviços (líquido)	-12 334	-6 299	-12 463	-6 109	-12 400	Services (net)
Juros	-9 659	-4 820	-9 093	-4 382	-8 900	Interest
Outros Serviços	-2 675	-1 479	-3 370	-1 727	-3 500	Other Services
Transferências Unilaterais	150	56	86	44	100	Transfers
Transações Correntes	302	-74	-4 028	-2 592	-2 100	Current Transactions
Capital	117	205	939	-207	3 370	Capital
Investimento Direto (líquido)	720	48	-108	116	500	Direct Investment (net)
Financiamentos	5 211	2 236	5 146	2 316	4 062	Financing
Estrangeiros	4 709	1 860	4 609	1 939	3 762	Foreign
Novos Ingressos	2 510	872	3 027	915	2 030	New Inflows
Refinanciamento	2 199	988	1 582	1 024	1 732	Refinancing
Brasileiros	502	376	537	377	300	Brazilian
Amortizações	-10 160	-6 065	-13 176	-6 586	-14 457	Amortizations
Pagas	-2 237	-1 456	-3 164	-1 706	-3 292	Paid
Refinanciadas (inclui Clube de Paris)	-7 923	-4 609	-10 012	-4 880	-11 165	Refinancing (including Paris Club)
Empréstimos em Moeda	4 871	4 115	9 245	4 025	9 395	Currency Loans
Curto Prazo	-1 880	90	428	-236	-594	Short-term
Longo Prazo	6 751	4 025	8 817	4 261	9 989	Long-term
Intercompanhias	306	124	204	57	208	Intercompany
Novos Ingressos	306	124	204	57	208	New Inflows
Bancos Brasileiros	891	586	1 293	540	1 344	Brazilian Banks
Novos Ingressos	-	-	-	-	-	New Inflows
Refinanciamento	891	586	1 293	540	1 344	Refinancing
Bancos Comerciais Estrangeiros	5 554	3 315	7 320	3 664	8 437	Foreign Commercial Banks
Novos Ingressos	-	-	-	-	-	New Inflows
Refinanciamento	5 554	3 315	7 320	3 664	8 437	Refinancing
Outros Capitais	-525	-129	-168	-78	-470	Other Capital
Recursos Adicionais	-	-	-	-	4 340	Additional Resources
Erros e Omissões	-405	-761	-540	754	-	Errors and Omissions
Superávit (+) ou Déficit (-)	14	-630	-3 629	-2 045	1 270	Surplus (+) or Deficit (-)
Financiamento	-14	630	3 629	2 045	-1 270	Financing
Haveres (- = aumento)	457	844	3 836	634	0	Assets (- = increase)
Obrigações - FMI	-63	-247	-613	-488	-1 070	Liabilities - IMF
Obrigações de Curto Prazo	-408	33	406	99	-200	Short-term Liabilities
Juros atrasados com bancos	-	-	-	1 800	-	Interest arrears to banks

1/ Preliminar/Preliminary.

2/ Previsão/Forecast.

B.23 - SERVIÇOS (exclusive reinvestimentos)  
Services (excludes reinvestment)

US\$ milhões

Item	1985	1986 1/		1987	
		1º Sem.	Ano	1º Sem 1/	Ano 2/
<b>Total</b>	-12 334	-6 299	-12 463	-6 109	-12 400
<b>Receitas</b>	3 746	1 461	2 909	1 132	2 515
<b>Revenues</b>					
<b>Despesas</b>	16 080	7 760	15 372	7 241	14 915
<b>Expenditures</b>					
<b>A) Juros</b>	-9 659	-4 820	-9 093	-4 382	-8 900
<b>Interest</b>					
<b>Receitas</b>	1 580	459	961	249	600
<b>Revenues</b>					
<b>Despesas</b>	11 239	5 279	10 054	4 631	9 500
<b>Expenditures</b>					
<b>B) Outros</b>	-2 675	-1 479	-3 370	-1 727	-3 500
<b>Other</b>					
<b>Receitas</b>	2 166	1 002	1 948	883	1 915
<b>Revenues</b>					
<b>Despesas</b>	4 841	2 481	5 318	2 610	5 415
<b>Expenditures</b>					
<b>Viagens Internacionais</b>	-376	-222	-487	-106	-250
<b>International Travel</b>					
<b>Receitas</b>	66	36	85	46	100
<b>Revenues</b>					
<b>Despesas</b>	442	258	572	152	350
<b>Expenditures</b>					
<b>Transportes</b>	-308	-229	-432	-307	-500
<b>Transport</b>					
<b>Receitas</b>	1 466	634	1 259	594	1 300
<b>Revenues</b>					
<b>Despesas</b>	1 774	863	1 691	901	1 800
<b>Expenditures</b>					
<b>Seguros</b>	-80	-19	-121	-113	-200
<b>Insurance</b>					
<b>Receitas</b>	46	45	59	14	30
<b>Revenues</b>					
<b>Despesas</b>	126	64	180	127	230
<b>Expenditures</b>					
<b>Lucros e Dividendos</b>	-1 056	-480	-1 237	-547	-1 300
<b>Profits and Dividends</b>					
<b>Receitas</b>	80	12	41	1	5
<b>Revenues</b>					
<b>Despesas</b>	1 136	492	1 278	548	1 305
<b>Expenditures</b>					
<b>Governamentais</b>	-188	-98	-196	-167	-300
<b>Government</b>					
<b>Receitas</b>	69	28	45	15	30
<b>Revenues</b>					
<b>Despesas</b>	257	126	241	182	330
<b>Expenditures</b>					
<b>Serviços Diversos</b>	-667	-431	-897	-487	-950
<b>Sundry</b>					
<b>Receitas</b>	439	247	459	213	450
<b>Revenues</b>					
<b>Despesas</b>	1 106	678	1 356	700	1 400
<b>Expenditures</b>					

1/ Preliminar/Preliminary.  
2/ Previsão/Forecast.

**B.24 - FINANCIAMENTOS OFICIAIS E CRÉDITOS DE FORNECEDORES E COMPRADORES**  
**Official Financing, Suppliers and Buyers Credits**

US\$ milhões

Item	1985			1986 1/			1987 2/		
	Moeda Currency	Mercadoria Merchandise	Total	Moeda Currency	Mercadoria Merchandise	Total	Moeda Currency	Mercadoria Merchandise	Total
<b>Total</b>	1 422	1 314	2 736	2 175	1 140	3 315	1 104	1 135	2 239
<b>Organismos Internacionais</b> Int'l Organizations	1 146	86	1 232	1 861	119	1 980	890	100	980
BID	428	26	454	292	70	362	115	60	175
IOB									
BIRD	706	54	760	1 565	43	1 608	750	40	790
IBRD									
CFI	12	6	18	4	6	10	15	-	15
IFC									
<b>Agências Governamentais</b> Government Agencies	50	688	738	26	256	282	15	605	620
<b>Crédito de Fornecedores e</b> Compradores Suppliers/Buyers	226 3/	540	766	288 3/	765	1 053	209 3/	430	639

1/ Preliminar/Preliminary.

2/ Previsão/Forecast.

3/ Refinanciamento/Refinancing.

**B.25 - FINANCIAMENTO DE ORGANISMOS INTERNACIONAIS**  
**International Organizations Financing**

US\$ milhões

Item	1985	1986 1/	1987 2/
<b>Total (líquido)</b>	<b>578</b>	<b>1 302</b>	<b>-29</b>
Desembolsos	1 232	1 980	980
Financing			
Amortizações	654	678	1 009
Amortization			
BID	277	183	-16
Inter-American Development Bank			
Desembolsos	454	362	175
Financing			
Amortizações	177	199	191
Amortization			
BIRD	331	1 150	34
World Bank			
Desembolsos	760	1 608	790
Financing			
Amortizações	429	458	756
Amortization			
CFI	-30	-11	-47
International Finance Corporation			
Desembolsos	18	10	15
Financing			
Amortizações	48 3/	21	62 3/
Amortization			

1/ Preliminar/Preliminary.

2/ Previsão/Forecast.

3/ Inclui US\$ 2,0 milhões do FIDA/Includes US\$ 2.0 million of FIDA.

B.33 - PERFIL DA DÍVIDA EXTERNA DE MÉDIO E LONGO PRAZOS  
Medium and Long-term External Debt Profile

US\$ milhões

Item	Saldo Outstanding	Amortizações Amortizations							
		1986 1/			1987 2/				
		Total	Refinanciadas Refinanced		Pagas Paid	Total	Refinanciadas Refinanced		Pagas Paid
			Clube de Paris Paris Club	Projeto II Project II			Clube de Paris Paris Club	Projeto II Project II	
Empréstimos do FMI	4 490	613 3/	-	-	613	1 070 3/	-	-	1 070
IMF Loans									
Financiamento de Importações	27 713	3 651	1 091	288	2 272	3 437	1 155	209	2 073
Import Financing									
Entidades Internacionais	9 059	678	-	-	678	1 009	-	-	1 009
International Entities									
BIRO	6 367	458	-	-	458	756	-	-	756
World Bank									
BID	2 071	199	-	-	199	191	-	-	191
IDB									
CFI	231	21	-	-	21	60	-	-	60
IFC									
Doutros	390	0	-	-	0	2	-	-	2
Other									
Agências Governamentais	10 225	1 500	426	-	1 074	965	354	-	611
Government Agencies									
USAID-Empréstimos Projeto	460	16	15	-	1	17	17	-	0
USAID-Project Loans									
Trigo-Outros Empréstimos	676	736	-	-	736	416	-	-	416
Wheat/Other Loans									
Eximbank - EUA	633	112	103	-	9	127	120	-	7
Eximbank - USA									
Eximbank - Japão	510	103	101	-	2	104	101	-	3
Eximbank - Japan									
KfW	1 167	74	40	-	34	107	73	-	34
KfW									
OPIC	1	0	-	-	-	0	-	-	0
OPIC									
PL No. 490 (governo americano)	24	7	7	-	-	5	5	-	0
PL no. 490 (USA Govt.)									
Clube de Paris	5 906	259	-	-	259	92	-	-	92
Paris Club									
Doutros	820	193	160	-	33	97	38	-	59
Other									
Doutros Credores	8 429	1 473	665	288	520	1 463	801	209	453
Other Financing Sources									
Fornecido por:									
Provided by:									
Bancos Comerciais Estrangeiros	4 366	791	338	268	185	751	448	190	113
Foreign Commercial Banks									
Bancos Brasileiros	74	21	-	20	1	21	-	19	2
Brazilian Banks									
Instituições Não-financeiras	3 989	661	327	-	334	691	353	-	338
Nonfinancial Inst.									
Empréstimos em Moeda	67 185	9 051	-	8 613	438	10 423	-	9 781	642
Currency Loans									
Resolução nº 63	8 772	2 483	-	2 483	-	2 597	-	2 597	-
Resolution no. 63									
Bancos Comerciais Estrangeiros	7 359	2 057	-	2 057	-	2 121	-	2 121	-
From Foreign Commercial Banks									
Bancos Brasileiros	1 413	426	-	426	-	476	-	476	-
From Brazilian Banks									
Lei nº 4 131	58 413	6 568	-	6 130	438	7 826	-	7 184	642
Law no. 4,131									
Bancos Comerciais Estrangeiros	49 492	5 263	-	5 263	-	6 329	-	6 316	13
From Foreign Commercial Banks									
Bancos Brasileiros	6 217	1 075	-	867	208	1 289	-	868	421
From Brazilian Banks									
Instituições Não-bancárias	2 704	230	-	-	230	208	-	-	208
From Nonbanks									
Empréstimos Programa (AID)	388	20	20	-	-	20	20	-	0
Program Loans (AID)									
Bônus	1 901	434	-	-	434	566	-	-	566
Bonds									
Doutros Empréstimos	82	20	-	-	20	11	-	-	11
Other Loans									
Total-Dívida de Médio e Longo Prazos	101 759	13 789	1 111	8 901	3 777	15 527	1 175	9 990	4 362
Total Medium and Long-term Debt									

1/ Preliminar/Preliminary.

2/ Previsão/Forecast.

3/ Incluído como redução de obrigações oficiais no balanço de pagamentos/Included as a reduction of official liabilities in the balance of payments.

## 8.34 - ENDIVIDAMENTO EXTERNO DO BRASIL

## Brazilian External Debt

Esquema de Amortização do Principal para a Dívida Existente em 31.12.86 1/

Principal Amortization Schedule Position December 31, 1986

Dívida de Médio e Longo Prazos Registrada no Banco Central do Brasil

Medium and Long-term Debt Registered in the Central Bank of Brazil

US\$ mil

Especificação	Ano Year										
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
1. Empréstimos Compensatórios do FMI IMF Loans	1 670 027	843 645	772 947	687 891	459 191	278 930	272 581	114 114	-	-	-
2. Empréstimos Programas Program Loans	20 397	20 446	20 446	20 446	20 446	20 446	20 446	20 446	20 446	20 446	20 446
3. Empréstimos Bônus Bonds	565 816	641 594	436 836	158 916	90 810	46 777	-	-	-	-	-
A) Governo Federal Federal Government	365 511	295 648	249 400	24 948	-	-	-	-	-	-	-
B) Outros Other	200 305	345 946	187 356	133 968	90 810	46 777	-	-	-	-	-
4. Financiamentos de Importações 2/ Import Financing	3 340 097	2 912 957	3 217 647	4 130 794	3 913 158	3 642 660	1 655 275	1 142 160	991 864	736 647	498 630
4.1 Entidades Internacionais International Entities	1 000 691	1 020 421	1 015 492	1 002 697	930 436	896 838	842 104	647 991	477 183	316 345	251 118
A) BIRD IBRD	755 883	774 647	755 282	732 126	670 625	635 371	594 962	436 090	327 579	198 994	144 795
B) BID 3/ IDB	190 570	188 719	195 631	193 509	170 342	177 303	168 470	147 563	124 973	117 441	106 323
C) CFI IFC	59 882	54 739	31 880	25 730	18 043	11 829	7 140	2 039	806	-	-
D) Outras Other	2 356	2 356	32 699	51 332	71 426	71 535	71 532	62 209	23 825	-	-
4.2 Agências Governamentais Government Agencies	964 687	627 828	1 097 993	2 115 355	2 065 726	1 955 836	205 830	167 440	184 937	155 116	115 489
A) AID - Empréstimos Projetos USAID - Project Loans	16 976	17 556	17 927	18 273	18 612	18 957	19 298	19 581	19 835	20 012	20 195
B) Importação de Trigo Wheat Other Loans	416 469	212 478	66 135	1 329	-	-	-	-	-	-	-
C) Eximbank EUA Eximbank USA	126 605	109 115	101 638	102 313	78 919	46 126	20 202	10 574	15 144	11 644	5 385
D) Eximbank Japão Eximbank Japan	103 571	85 266	79 600	76 945	76 701	16 714	16 355	16 327	21 559	11 615	5 323
E) KFW	107 207	104 450	102 550	120 382	110 030	100 664	95 627	71 514	69 311	61 304	48 232
F) OPIC	75	75	75	75	75	-	-	-	-	-	-
G) PL 480 PL no. 480	5 290	3 897	1 272	1 106	1 106	1 106	1 106	1 106	1 106	1 106	1 106
H) Outras 4/ Other	188 694	94 991	728 796	1 794 932	1 780 283	1 772 269	52 442	48 338	57 982	49 435	35 248
4.3 Outros Financiamentos 5/ Other Financing Sources	1 366 519	1 264 708	1 184 162	1 012 742	916 996	790 786	608 141	326 819	329 744	265 186	132 023
5. Dívida Pública Externa Consolidada External Public Consolidated Debt	298	-	-	-	-	-	-	-	-	-	-
6. Empréstimos Diversos Sundry Loans	10 516	10 681	10 661	7 366	4 272	4 044	3 816	3 580	3 360	3 132	2 904
7. Subtotal (1 a 6)	5 007 211	4 389 243	4 458 517	5 005 283	4 478 747	3 992 817	1 952 078	1 280 268	1 015 630	740 185	521 940
8. Empréstimos em Moeda Currency Loans	10 937 132	10 213 900	8 400 237	7 319 078	7 989 750	9 472 195	7 587 864	3 366 702	452 171	210 271	133 249
8.1 Resolução nº 63 Resolution no. 63	2 596 992	2 488 935	1 787 368	936 423	406 237	191 337	144 227	65 010	15 047	1 963	-
8.2 Instrução nº 289 Instruction no. 289	-	-	-	-	-	-	-	-	-	-	-
8.3 Lei nº 4 131 Law no. 4,131	8 340 140	7 725 045	6 692 869	6 382 655	7 583 513	9 280 858	7 443 637	3 301 692	437 124	208 308	133 249
A) Comunicado FIRCE nº 10 FIRCE Comunicat. no. 10	8 170 600	7 554 781	6 554 590	6 281 174	7 542 856	9 250 887	7 422 052	3 288 767	435 874	208 306	133 249
B) Comunicado FIRCE nº 20 FIRCE Comunicat. no. 20	169 540	170 264	138 279	101 481	40 657	29 971	21 585	12 925	1 250	2	-
9. Total Geral (7+8) Grand Total	15 944 343	14 603 223	12 938 754	12 324 361	12 468 497	13 465 012	9 539 942	4 646 970	1 467 801	970 456	655 189
10. (X) Participação (X) Share	15,67	14,35	12,72	12,11	12,25	13,23	9,38	4,57	1,44	0,95	0,64

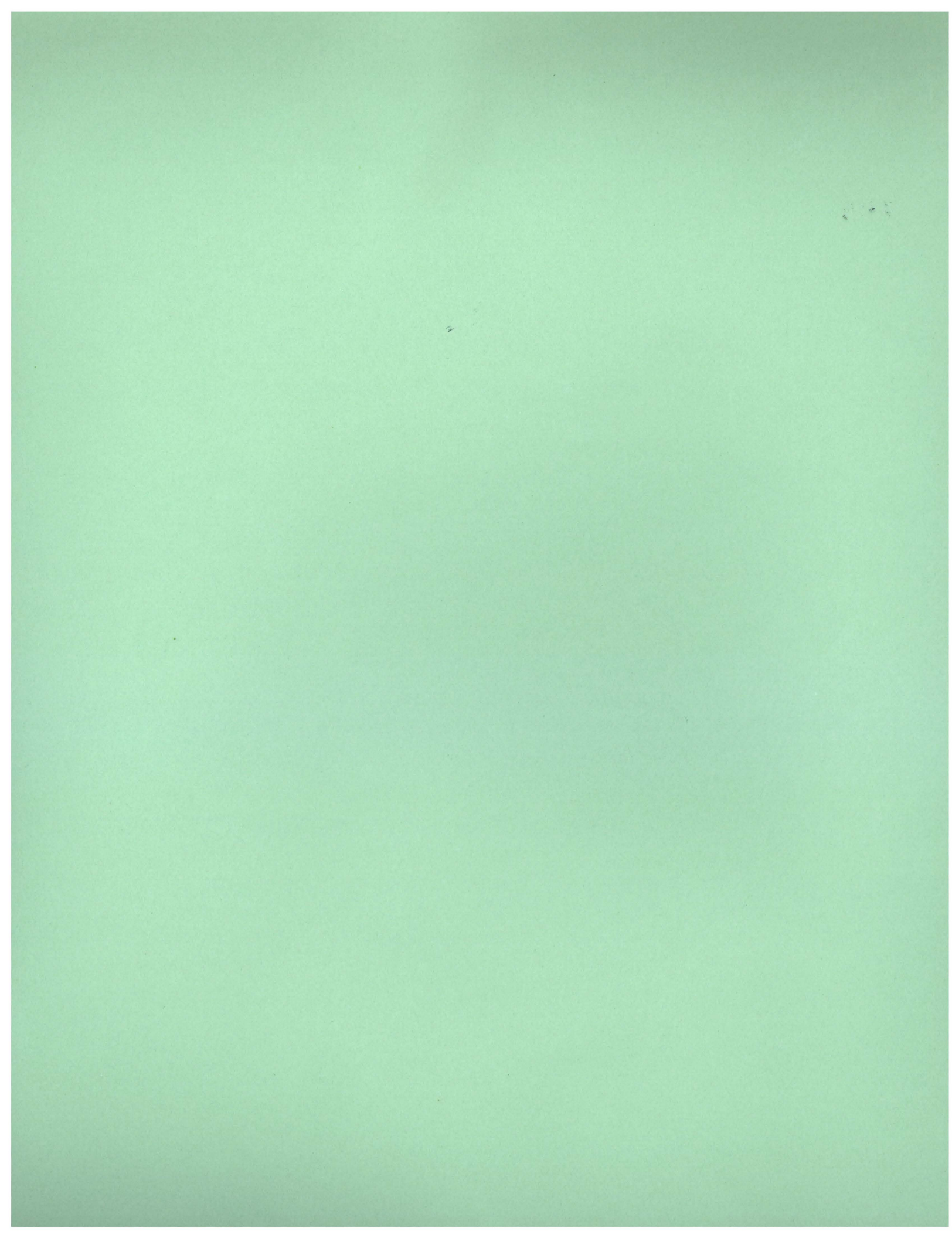
1/ Exclusive créditos 'stand by' e operações de 'bankers acceptances'/Excludes stand by credits and bankers acceptances operations.

2/ Inclusive financiamentos de serviços e custos locais/Includes financing of services and local costs.

3/ Exclusive US\$ 561 858 mil de empréstimos amortizáveis em cruzados e US\$ 15 800 mil de créditos para financiamentos de exportação/Excludes US\$ 561,858 thousand for amortized loans in cruzados and US\$ 15,800 thousand for export financing.

4/ Os valores dessas operações eram contabilizados até 31.12.80 no item 'Outros Financiadores'/The values of those operations were recorded in the item 'Other Financing Sources' up to 12.31.80.

5/ Inclusive credores associados no Eximbank EUA/Includes partner creditors of Eximbank USA.





# Office Memorandum

Ms. Dillon  
1. Core  
2. File:  
Brazil Debt

September 11, 1987

## MEMORANDUM FOR FILES

Subject: Brazil--Board Position on Relations with the Fund

At the Board discussion of Brazil's Article IV consultation reports most Directors expressed concern over Brazil's accumulation of arrears and emphasized the need to restore orderly relations with creditors. This memorandum records the position of Directors with reference to the role of the Fund in the process of Brazil's normalization of relations with creditors.

Three Directors (U.K., U.S., and the Netherlands) viewed close collaboration with the Fund as a condition sine qua non for the resolution of Brazil's debt problem and expressed this by saying that a stand-by arrangement would be a precondition for any future Paris Club rescheduling with Brazil. The Canadian chair considered that a stand-by or "any other arrangement with the Fund" would help in reaching an accord with creditors. The Indian and Japanese chairs referred to enhanced surveillance and enhanced contacts, respectively, as elements that would help achieve the authorities' ambitious medium-term scenario and establish more harmonious relationship with creditors. Germany and France noted their concern over the deterioration of relations with creditors, and over Brazil's new debt proposal (the bond scheme), but skirted reference to the issue of cooperation with the Fund. They also asked Mr. Kafka to provide the Board with details of Brazil's new debt strategy to which Mr. Kafka replied that he was not in a position at this time to disclose more than what had already been publicly announced.

The Belgian chair made the issue of cooperation with the Fund a main point of its intervention. Mr. de Groote explained that since a formal program with the Fund will meet with strong domestic resistance and might not ensure the disbursement of bank money, he viewed a shadow program to be submitted for endorsement by the Fund and commercial banks as a better alternative. In his view, the advantages of a shadow program (other than being easier to sell domestically) were that it could be monitored by the Fund like a stand-by but banks could not tie disbursements to compliance with performance criteria, since there would be formally none. Mr. de Groote did not elaborate on why bank disbursements were more likely to be forthcoming in this situation. He mentioned the experience of Belgium in 1982 as a successful precedent for this kind of arrangement. In his reply statement, Mr. Kafka expressed interest in Mr. de Groote's proposal. Reference to a shadow program was included in the summing up.

G. Oliveros <sup>50</sup>  
Economist  
Stand-By Policies Division, ETR

cc: Mr. Brau, Ms. Dillon, Mr. Reichmann, Mr. Watson



EFD/TBL: brazil, 3/27/87

U.S. Direct and Guaranteed Credits to Brazil: Amounts Outstanding  
as of end-June 1986

(In millions of U.S. dollars)

	Direct	Guaranteed	Total
Trade-related	1,426.0	1,247.3	2,673.3
Eximbank	(1,209.5)	(701.7)	(1,911.2)
CCC	(216.5)	(545.6)	(762.1)
Foreign assistance	1,057.5	72.4	1,129.9
Agricultural trade development	52.6	--	52.6
Of which:			
Wheat and flour	(33.2)	(--)	(33.3)
Total	<u>2,536.1</u>	<u>1,319.7</u>	<u>3,855.8</u>

Sources: U.S. Treasury Department, Status of Active Foreign Credits of the U.S. Government, and Contingent Foreign Liabilities of the U.S. Government.



Confidential

# Office Memorandum

~~1. PK~~

2. CIVC

3. FILE:

~~Brazil Comments~~  
Brazil - Orlet

TO: Mr. Beveridge

FROM: G. Oliveros <sup>40</sup>

SUBJECT: Comments on "Brazil--Medium-Term Growth Strategy", World Bank

February 5, 1987

I believe that the paper sent for clearance by Mr. Gonzalez-Cofino (Division Chief, LC2BR) is a striking document in several respects. In essence, the paper proposes that, in the absence of a Fund arrangement, the Bank should take the lead in negotiating a stabilization program with the Brazilian authorities during a forthcoming Brazilian high-level mission scheduled to arrive in Washington on February 17. It invites the Fund to acquiesce to this new distribution of responsibilities by requesting from it "an active participation in the assessment of Brazil's macroeconomic short-term program and the monitoring of performance in its execution" (page 23).

The program proposed by the Bank (pages 9-19) envisages strong adjustment (fiscal surplus, real wage decline, price de-freeze, maxi-devaluation, comprehensive trade liberalization, and a long list of structural reforms) and inordinately large amounts of new financing through 1990 which the Bank would presumably help raise. It would be the Bank's preference (page 30) that Brazil get a MYRA from commercial bank creditors at low spreads (page 25) and that the new money package leave out smaller banks, although it is acknowledged that this latter preference might not be feasible "without additional "comfort" being provided by the Bank" (sic). The financing package also assumes substantial net inflows from official creditors which follow from the Bank's expectation that most export credit agencies will re-open cover in the near future. As regards the Bank's own resources, the approval of large amounts of fast-disbursing loans will be made conditional on a positive Bank assessment of program implementation.

It is worth emphasizing the following points made in the paper: (i) the Brazilian authorities are in general agreement with most aspects of the Bank's assessment of the current economic situation (page 19); (ii) the Brazilian authorities have indicated their willingness to reach agreement with the Bank on a stabilization program (page 27).

According to the paper, if a reasonable consensus is reached during the February discussions with the authorities, a Bank mission would finalize negotiations in Brasilia in March. "Such agreement would have to be based upon a satisfactory short- and medium-term program assessed by the Bank with the participation of the IMF staff" (sic).

cc: Mr. Guitián