

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

EBS/82/215
Correction 1

CONFIDENTIAL

December 22, 1982

To: Members of the Executive Board

From: The Secretary

Subject: Brazil - Use of Fund Resources - Compensatory Financing Facility

The following corrections have been made in EBS/82/215 (11/24/82):

Page 2: Table 1 has been corrected to include the most recent estimates of the balance of payments for 1982.

Page 6: Table 3 contains corrections for the figures on cocoa and other exports as well as consequential changes for subtotals for primary commodities and beverages.

Page 7: Table 4 has been corrected to reflect the changes in cocoa values and consequential revisions for primary commodities and beverages as well as changes in export unit values.

Corrected pages are attached.

Att: (3)

INTERNATIONAL MONETARY FUND

BRAZIL

Use of Fund Resources-Compensatory Financing Facility

Prepared by the Research and the Western Hemisphere Departments

(In consultation with the Exchange and Trade Relations,
Legal, and Treasurer's Departments)

Approved by Wm. C. Hood and Sterie T. Beza

November 23, 1982

The Managing Director has been informed that the Brazilian authorities will shortly request a purchase equivalent to SDR 498.75 million (50 per cent of quota) under the compensatory financing decision. The request, the first by Brazil under the facility since June 1963, is being made with respect to a shortfall of SDR 920 million estimated for the 12 months ending December 1982. At present, the Fund's holdings of the member's currency are equivalent to 73.6 per cent of quota.

This paper, which is being circulated in advance of the formal request by Brazil, is presented in five sections and an annex. The sections deal with: (1) balance of payments position and cooperation with the Fund; (2) estimation of the export shortfall; (3) causes of the shortfall and earnings prospects; (4) repurchase; and (5) staff appraisal and proposed decision. The relations of Brazil with the Fund are summarized in the annex.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position

After a sharp deterioration during 1979-80, Brazil's balance of payments registered a significant improvement in 1981 (Table 1). The current account deficit, which had been equivalent to 4.6 per cent of GDP in both 1979 and 1980, was reduced to 3.9 per cent of GDP in 1981. That performance reflected an improvement of SDR 3.2 billion in the trade account, due mainly to an increase in the SDR value of exports of close to 28 per cent, but this was largely offset by an increase in interest payments of SDR 3 billion. Thus, the current account deficit remained practically constant at SDR 9.8 billion in 1981. (In U.S. dollar terms it improved by about US\$1.2 billion.) Brazil had no major difficulty in finding foreign resources to finance such a deficit and in adding about SDR 1 billion to gross international reserves, which at the end of 1981 stood at almost SDR 6.5 billion, equivalent to more than four months of that year's imports. From a deficit of SDR 2.6 billion in 1980, the overall balance of payments swung to a surplus of SDR 727 million in 1981.

Table 1. Brazil: Summary Balance of Payments, 1979-82

(In millions of SDRs)

	1979	1980	1981	Proj. 1982 <u>1/</u>
A. Current account	-8,314	-9,840	-9,829	-14,489
Trade balance	-2,198	-2,169	1,020	633
Exports	(11,799)	(15,468)	(19,754)	(18,110)
Imports	(-13,997)	(-17,637)	(-18,734)	(-17,477)
Services and transfers (net)	-6,116	-7,671	-10,849	-15,122
Of which: interest payments	(-4,139)	(-5,729)	(-8,739)	(-10,957)
B. Capital account	6,331	7,500	11,112	8,874
Long-term loans	4,555	3,690	8,279	6,701
Other long-term capital <u>2/</u>	909	1,226	1,479	1,630
Short-term capital	867	2,584	1,354	543
C. Errors and omissions	-101	-264	-556	--
D. Overall balance (A+B+C)	-2,084	-2,604	727	-5,615
<u>Memorandum items:</u>				
Gross international reserves at year end	7,355	5,420	6,449	2,807
Equivalent months of imports, c.i.f.	6.3	3.7	4.1	1.9
Equivalent months of current payments	3.9	2.3	2.3	0.9
Current account balance as per cent of GDP	-4.6	-4.6	-3.9	-5.1

Source: Central Bank of Brazil; and Fund staff estimates.

1/ Estimated by the authorities in cooperation with the staff.

2/ Direct investment, Brazilian lending abroad, and SDR allocations.

data available for the month of October suggest that the estimated data for October-December 1982 may be on the high side and that the shortfall based on actual data for the whole shortfall year will probably turn out to be substantially higher than the one estimated in this paper.

After expanding at an average annual rate of almost 30 per cent during 1980 and 1981, Brazil's export earnings are estimated to decline by 8 per cent to SDR 18,296 million in 1982. They are projected to recover by 11 per cent in 1983 and by 13 per cent in 1984. On the basis of these export movements, the shortfall for calendar year 1982 is estimated at SDR 920 million, which is nearly twice as large as the proposed purchase of SDR 498.75 million (Table 2).

Table 2. Brazil: Estimation of the Export Shortfall

(In millions of SDRs)

	Years Ending December				
	1980	1981	1982	Projected Exports 1/ 1983	1984
Exports	15,459	19,784	18,296	20,376	22,977
Shortfall			920		
Proposed purchase			498.75		

1/ Based on the judgmental forecast of earnings given in Table 3.

3. Causes of the shortfall and export prospects

The total export shortfall of SDR 920 million is attributable largely to shortfalls in major primary commodities totaling SDR 738 million, including shortfalls in soybean products (SDR 356 million), sugar (196 million), coffee (SDR 155 million), cocoa (SDR 92 million), and paper pulp (SDR 31 million). Within the group of major manufactured products, for which a combined shortfall of SDR 209 million is estimated, the largest shortfalls are calculated for boilers and mechanical equipment (SDR 137 million) and transport equipment (SDR 83 million). Export excesses are calculated for refined petroleum (SDR 113 million), iron ore (SDR 53 million), orange juice (SDR 49 million), tobacco (SDR 35 million), and meat (SDR 5 million).

The shortfall in soybean products is mostly on account of volume, which is estimated to decline by 30 per cent in 1982 because of adverse weather. The shortfalls in sugar, coffee, and cocoa, on the other hand,

Table 3. Brazil: Export Earnings and Shortfalls by Major Commodities

	Years Ending December								Shortfall	
	1977	1978	1979	1980	1981	1982	1983	1984	Geometric	Arithmetic
----- (In millions of SDRs) -----										
Total	<u>10,382</u>	<u>10,108</u>	<u>11,799</u>	<u>15,459</u>	<u>19,784</u>	<u>18,296</u>	<u>20,376</u>	<u>22,977</u>	<u>920</u>	<u>1,082</u>
Primary commodities	<u>6,391</u>	<u>5,429</u>	<u>5,847</u>	<u>7,849</u>	<u>9,024</u>	<u>8,444</u>	<u>9,690</u>	<u>10,836</u>	<u>668</u>	<u>725</u>
Soybean products	<u>1,828</u>	<u>1,202</u>	<u>1,268</u>	<u>1,732</u>	<u>2,617</u>	<u>1,645</u>	<u>1,936</u>	<u>2,223</u>	<u>356</u>	<u>386</u>
Soybean meal	(1,594)	(975)	(1,014)	(1,416)	(2,156)	(1,492)	(1,621)	(1,806)	(187)	(206)
Unprocessed soybean oil	(234)	(227)	(254)	(316)	(461)	(153)	(315)	(417)	(158)	(179)
Sugar	396	279	281	987	899	508	551	695	196	220
Beverages	2,912	2,477	2,520	2,669	1,990	2,382	2,876	3,103	192	222
Coffee	(2,255)	(1,826)	(1,796)	(2,136)	(1,486)	(1,857)	(2,306)	(2,427)	(155)	(185)
Cocoa	(657)	(651)	(724)	(533)	(504)	(525)	(570)	(676)	(34)	(37)
Meat	129	115	161	338	551	562	657	778	-5	15
Poultry	(27)	(37)	(63)	(159)	(302)	(317)	(370)	(417)	(-19)	(-4)
Processed meat	(102)	(78)	(98)	(179)	(249)	(245)	(287)	(361)	(12)	(19)
Orange juice	151	262	218	260	558	542	574	648	-49	-26
Tobacco	160	191	221	218	303	406	491	537	-35	-15
Paper pulp	17	45	139	296	309	271	290	352	31	33
Iron ore	777	821	995	1,199	1,483	1,675	1,852	2,037	-53	-26
Refined petroleum	21	37	44	150	314	453	463	463	-113	-84
Manufactures	<u>1,018</u>	<u>1,673</u>	<u>2,227</u>	<u>3,019</u>	<u>4,259</u>	<u>3,643</u>	<u>3,920</u>	<u>4,621</u>	<u>209</u>	<u>249</u>
Footwear	149	233	285	313	498	461	505	602	4	15
Transport equipment	420	659	847	1,163	1,760	1,401	1,471	1,709	83	100
Boilers & mechanical	362	612	750	1,063	1,315	1,040	1,124	1,384	137	145
Steel goods	87	169	345	480	686	741	820	926	-27	-10
Other exports	<u>2,973</u>	<u>3,006</u>	<u>3,725</u>	<u>4,591</u>	<u>6,501</u>	<u>6,209</u>	<u>6,766</u>	<u>7,520</u>	<u>27</u>	<u>108</u>
----- (Percentage change) -----										
Total		<u>-3</u>	<u>17</u>	<u>31</u>	<u>28</u>	<u>-8</u>	<u>11</u>	<u>13</u>		
Primary commodities		<u>-15</u>	<u>8</u>	<u>34</u>	<u>15</u>	<u>-6</u>	<u>15</u>	<u>12</u>		
Soybean products		<u>-34</u>	<u>5</u>	<u>37</u>	<u>51</u>	<u>-37</u>	<u>18</u>	<u>15</u>		
Soybean meal		(-39)	(4)	(40)	(52)	(-31)	(9)	(11)		
Unprocessed soybean oil		(-3)	(12)	(24)	(46)	(-67)	(106)	(32)		
Sugar		-30	1	251	-9	-43	8	26		
Beverages		-15	2	6	-25	20	21	8		
Coffee		(-19)	(-2)	(19)	(-30)	(25)	(24)	(5)		
Cocoa		(-1)	(11)	(-26)	(-5)	(4)	(9)	(19)		
Meat		-11	40	110	63	2	17	18		
Poultry		(37)	(70)	(152)	(90)	(5)	(17)	(13)		
Processed meat		(-24)	(26)	(83)	(39)	(-2)	(17)	(26)		
Orange juice		74	-17	19	115	-3	6	13		
Tobacco		19	16	-1	39	34	21	9		
Paper pulp		165	209	113	4	-12	7	21		
Iron ore		6	21	21	24	13	11	10		
Refined petroleum		76	19	241	109	44	2	--		
Manufactures		<u>64</u>	<u>33</u>	<u>36</u>	<u>41</u>	<u>-14</u>	<u>8</u>	<u>18</u>		
Footwear		56	22	10	59	-7	10	19		
Transport equipment		57	29	37	51	-20	5	16		
Boilers equipment		69	23	42	24	-21	8	23		
Steel goods		94	104	39	43	8	11	13		
Other exports		<u>1</u>	<u>24</u>	<u>23</u>	<u>42</u>	<u>-4</u>	<u>9</u>	<u>11</u>		

Table 4. Brazil: Value, Volume and Unit Value Indices by Major Commodities

(1982=100: In terms of SDRs)

	Value Share in Total Exports in 1982 (In Per Cent)	Years Ending December								Shortfall in Per Cent of Level in Shortfall Year
		1977	1978	1979	1980	1981	1982	1983	1984	
Value	66.2	61	59	67	90	110	100	113	128	7.4
Primary commodities	46.2	76	64	69	93	107	100	115	128	7.9
Soybean products	9.0	111	73	77	105	158	100	117	135	21.2
Soybean meal	(8.2)	(107)	(65)	(68)	(95)	(145)	(100)	(109)	(121)	(12.7)
Unprocessed soybean oil	(0.8)	(153)	(148)	(166)	(206)	(301)	(100)	(206)	(272)	(103.3)
Sugar	2.8	78	55	55	194	177	100	108	137	38.4
Beverages	13.0	122	104	106	112	84	100	121	130	8.2
Coffee	(10.1)	(121)	(98)	(97)	(115)	(80)	(100)	(124)	(131)	(8.4)
Cocoa	(2.9)	(125)	(124)	(138)	(102)	(96)	(100)	(108)	(129)	(6.4)
Meat	3.0	23	21	29	60	98	100	117	138	-1.0 (excess)
Poultry	(1.7)	(8)	(12)	(20)	(50)	(95)	(100)	(117)	(131)	-6.2 (excess)
Processed meat	(1.3)	(42)	(32)	(40)	(73)	(102)	(100)	(117)	(148)	5.2
Orange juice	3.0	28	48	40	48	103	100	106	120	-8.9 (excess)
Tobacco	2.2	39	47	54	54	75	100	121	132	-8.3 (excess)
Paper pulp	1.5	6	17	51	109	114	100	107	130	11.6
Iron ore	9.2	46	49	59	72	89	100	111	122	-2.8 (excess)
Refined petroleum	2.5	5	8	10	33	69	100	102	102	-25.0 (excess)
Manufactures	20.0	28	46	61	83	117	100	108	127	5.9
Footwear	2.5	32	50	62	68	108	100	110	131	1.1
Transport equipment	7.7	30	47	60	83	126	100	105	122	6.0
Boilers & mechanical	5.7	35	59	72	102	126	100	108	133	13.0
Steel goods	4.1	12	23	47	65	93	100	111	125	-3.5 (excess)
Volume	60	68	74	92	111	100	100	106	112	3.9
Primary commodities	65	68	71	86	106	100	100	108	112	2.0
Soybean products	102	80	78	98	143	100	100	121	131	17.3
Soybean meal	(99)	(76)	(73)	(89)	(129)	(100)	(100)	(112)	(119)	(8.9)
Unprocessed soybean oil	(125)	(125)	(134)	(188)	(284)	(100)	(100)	(205)	(256)	(94.8)
Sugar	94	75	70	97	104	100	100	104	104	1.8
Beverages	61	74	75	89	95	100	100	105	106	-1.2 (excess)
Coffee	(59)	(72)	(66)	(96)	(96)	(100)	(100)	(102)	(103)	(-2.1) (excess)
Cocoa	(67)	(83)	(99)	(90)	(93)	(100)	(100)	(111)	(115)	1.3
Meat	32	29	31	56	86	100	100	112	120	-8.3 (excess)
Poultry	(9)	(15)	(23)	(48)	(84)	(100)	(100)	(114)	(114)	(-12.1) (excess)
Processed meat	(62)	(49)	(42)	(66)	(89)	(100)	(100)	(109)	(127)	-4.1 (excess)
Orange juice	39	61	53	73	116	100	100	104	109	-0.8 (excess)
Tobacco	72	78	90	92	94	100	100	107	107	-0.2 (excess)
Paper pulp	11	32	69	107	114	100	100	103	115	7.6
Iron ore	68	77	88	92	100	100	100	105	107	0.7
Refined petroleum	10	18	12	36	73	100	100	100	100	-23.5 (excess)
Manufactures	46	69	82	106	122	100	100	103	113	8.5
Footwear	49	76	74	76	97	100	100	105	119	-1.6 (excess)
Transport equipment	50	75	86	123	145	100	100	100	108	14.0
Boilers & mechanical	65	86	105	130	132	100	100	105	120	16.7
Steel goods	13	28	48	60	81	100	100	103	109	-11.4 (excess)
Unit value	103	86	90	97	99	100	100	106	114	3.0
Primary commodities	116	95	98	108	101	100	100	106	114	5.7
Soybean products	109	91	98	107	111	100	100	97	103	3.5
Soybean meal	(108)	(86)	(94)	(106)	(112)	(100)	(100)	(97)	(102)	(3.3)
Unprocessed soybean oil	(123)	(119)	(124)	(110)	(106)	(100)	(100)	(100)	(106)	(4.3)
Sugar	82	73	79	201	170	100	100	104	132	36.2
Beverages	202	141	144	126	88	100	100	116	123	9.6
Coffee	(208)	(138)	(146)	(130)	(83)	(100)	(100)	(122)	(127)	(10.8)
Cocoa	(186)	(150)	(139)	(112)	(104)	(100)	(100)	(98)	(112)	(5.0)
Meat	71	70	92	108	114	100	100	104	115	8.0
Poultry	(90)	(81)	(85)	(104)	(113)	(100)	(100)	(102)	(115)	(6.6)
Processed meat	(67)	(66)	(97)	(111)	(114)	(100)	(100)	(108)	(116)	(9.7)
Orange juice	72	79	76	66	89	100	100	102	110	-8.0 (excess)
Tobacco	55	60	60	59	80	100	100	113	124	-7.9 (excess)
Paper pulp	54	52	74	102	100	100	100	104	113	3.7
Iron ore	68	64	68	78	89	100	100	106	114	-3.5 (excess)
Refined petroleum	49	47	78	93	95	100	100	102	102	-1.7 (excess)
Manufactures	60	67	75	78	96	100	100	105	112	-2.5 (excess)
Footwear	66	66	84	89	111	100	100	104	110	2.5
Transport equipment	60	63	71	68	86	100	100	105	113	-7.0 (excess)
Boilers & mechanical	53	68	69	78	96	100	100	103	111	-3.1 (excess)
Steel goods	93	80	97	108	114	100	100	108	114	8.7

are almost entirely caused by low prices resulting from large surpluses in world supplies. The shortfall in paper pulp is caused by both low price and volume stemming from depressed demand conditions. Finally, the shortfalls in boilers and mechanical equipment and transport equipment are attributable to low volumes in 1982 which reflect the weak industrial demand prevailing in Brazil's major markets.

a. Primary commodities

Major primary commodities account for an estimated 47 per cent of total exports in 1982. After increasing at an average annual rate of 24 per cent during the two pre-shortfall years, earnings from them are estimated to decline by 7 per cent in 1982, as a result of both lower prices and volumes. They are projected to recover by 14 per cent in 1982 and by 12 per cent in 1984, with increases expected from both prices and volumes.

(1) Soybean products

The share of soybean products in Brazil's export earnings has been rising rapidly in the past few years, reaching a peak of 13 per cent in 1981, but then falling to an estimated 9 per cent in the shortfall year. Production reached 15 million tons in 1980, 48 per cent higher than the preceding year, and remained virtually unchanged in 1981; this was followed by a 16 per cent decline in 1982, largely due to a drought in the Rio Grande do Sul area. Brazil's share in world production of soybeans increased from 10 per cent in 1973 to nearly 19 per cent in 1981, but the poor weather conditions are expected to lower its share to 15 per cent in 1982.

Earnings from exports of soybean products increased at an average rate of 41 per cent per annum in the two pre-shortfall years, largely because of a 35 per cent volume increase per annum. A fall of 37 per cent in earnings is estimated for 1982 owing to a 30 per cent decline in export volume associated with the adverse weather conditions. Yield per hectare declined sharply in 1982 to 1.56 tons compared with an average of 1.75 tons during the preceding two years--a decline of 11 per cent on average, with a fall of 24 per cent recorded in Rio Grande do Sul. Export unit value is estimated to decline by nearly 10 per cent in 1982, reflecting lower international prices largely as a result of higher U.S. and Argentine output, which more than offset the drop in Brazilian production.

In the first post-shortfall year, Brazil's earnings from soybean exports are projected to recover by 18 per cent. A partial recovery in production is expected to make possible a 21 per cent increase in volume, while unit value is projected to decline by 3 per cent, mainly because of an estimated 13 per cent increase in world production of soybeans. For 1984, a further rise of 15 per cent in earnings from soybean products is projected to the second highest level ever earned from this commodity, but 15 per cent below the record high level realized in 1981. Unit prices