



BANCO NACIONAL DO DESENVOLVIMENTO ECONÔMICO
Ministério da Indústria e do Comércio

**REDEFINITION OF THE
BRAZILIAN ECONOMIC POLICY
AND THE ROLE OF THE
BNDE SYSTEM**

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APRIL 1980

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President of BNDE



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I) THE STRATEGY OF GROWTH FOR THE PERIOD 1980/85

Along the Brazilian experience in growth, matters concerning the aggravation of the external unbalance and of the inflationary pressures have historically alternated in the ranking of the chronic conditioning factors in the development process.

It is equally known that, in the postwar period, along with the growing world interdependence, the most dynamic sectors of the industrial development increasingly relied on the use of petroleum as a basic energy input, which, at the time, offered a relatively favorable price structure.

When, in the mid-seventies, the soaring international inflation and the quadruplication of oil prices announced the start of a new era of fuel shortage for the world economy, countries such as Brazil, that were large oil importers, faced an unusual increase in the level of vulnerability of their balances of payments.

The Brazilian government since then proceeded to effect the necessary changes in the course of the national economy's growth process. At an initial stage, which ended in 1979, on account of the objective requirements of the domestic production structure, a priority endeavor was made for substitution of basic inputs and equipment imports.

At the second stage, which is now starting, governmental authorities set the strategic guidelines that are to lead the process of national development, consolidated into the Third National Development Plan, 1980/85, considering a world scene marked by the worsening of energy problems and a relative degree of uncertainty in the evolution of the international financial market as well as in the world's trade of basic inputs. This Plan's leading concern is to adjust the economic structure to the creation of an energy basis with emphasis on inputs alternative to oil.

Among the principles underlying such strategy is the recognition of the Brazilian economy's specific potentials and structural conditions, which turn feasible and allow the maintenance of the economic growth and of the new jobs offer. At the political level, the continuous building of a fully developed, free and democratic society, with more equitable sharing of economic results, at both personal and regional levels, is proposed.

The necessary conditions to render feasible the national development policy are based on comparative advantages of the Brazilian economy, represented by a significant hydroelectric power potential, yet to be exploited, reasonable coal reserves in the southern part of the country and the existence of some continental and off-shore oil fields scattered throughout the territory, the dimensions of which are modest if compared to those of the large oil fields concentrated in a few producing areas of the world, but nevertheless sufficient to guarantee the national strategic reserve.

Also to be mentioned are the large availability of cultivable soils and the adequate climatic conditions, as well as the existence of an integrated industrial complex, which guarantees the technical basis for a self-sustaining economic growth.

Such factors attest the particularly favorable conditions of the Brazilian economy in an international context, where the food and energy shortage is becoming crucially significant. On the other hand, mentioned factors respond in a positive manner to common queries arising in the course of analyses of long-term world prospects, which combine projections of the pace of occupation of the agricultural frontiers and exhaustion of the most relevant non-renewable energy sources with the population growth's observed trends.

With regard to this latter aspect, it should be informed that recent reviews of sample statistic data concerning the Brazilian population have been indicating a considerable decline in the demographic growth rate, which increases the government's capacity to deal with a slower pace of the economic growth demanded by the need to generate additional employment intended to absorb new labor forces entering the work market. This fact represents still better prospects for reduction of the effective unemployment rate and reduction of underemployment rates found in some activities and regions.

In summary, the essence of the Brazilian development strategy for the coming years consists in restructuring sources of the energy matrix, mainly by increasing hydroelectric power participation, oil prospecting and favoring a fuller utilization of the agricultural capacity for production of renewable inputs, particularly alcohol. Such restructuring is supported by the installed capacity margins in the equipment-producing complex and complemented by the reformulation of transportation and storage infrastructure.

The feasibility of the long-term strategy is obviously built on results achieved in the present. Therefore, in the short run, the goal is to break through the foreign debt bottleneck, by means of immediate export expansion, the responsibility of which lies, in the case of Brazil, particularly on the agricultural sector. Rural activity in Brazil is primal in terms of international comparative advantages, specially when considering the more intense utilization of production factors, available in relatively greater abundance, the short maturing and investment return term, as well as the better product rates generated per unit of capital applied.

A presentation of the set of economic policy instruments already employed with the objective of implementing the strategy outlined in this exposition will now follow.

II) SHORT-TERM MACROECONOMIC POLICIES AND GOALS FOR 1980

From this viewpoint, it is to be inferred that the strategy for fuller utilization of the capacity installed in industry and subutilized in agriculture for generation of exportable surpluses and production of energy inputs alternative to oil is founded on the possibility of making product growth and job offer goals compatible with the control of the external unbalance and inflationary process. This strategy considers, still, the reduction of the social unbalance.

The rebating of this proposal to the short term assumes the possibility of keeping the growth pace close to the historic expansion of effective product and the simultaneous reduction of the inflation rate, without discontinuation of export increase. The adjusting element in this equation, particularly characteristic of economies in a stage of development similar to Brazil's lies on the existence of large idle capacity margins from a sectoral and productive factors stand point.

In that respect, the changes effected in the conduction of economic policy, specially in the second semester of 1979, which we are to subsequently analyse here are of great significance. Such changes also encompassed the complete integration of the instruments and the

activities of companies and agencies in the public sector, with a view to establishing operational conditions for the achievement of the previously mentioned purposes.

With reference to the external sector, in compliance with such strategy and the review of the recent years' observed trends in the balance of payments, the governmental authorities' action has been directed toward the stabilization of external accounts, by means of the accomplishment of goals set for 1980. Such goals presume a US\$ 2 billion expenditure from the foreign currency reserves and the leveling of the commercial balance at US\$ 20 billion in exports and imports (US\$ 9.6 billion of which in oil and by-products). Furthermore, an inflow of US\$ 2 billion in direct foreign investments plus an equal amount of credits from international and governmental agencies are predicted, while US\$ 3 billion are to be raised through new foreign currency loans and bond placements, and an additional US\$ 7 billion through renewal of amortized loans. The achievement of such results implies the expectation that no highly unfavorable developments will occur in the generation of exportable surpluses, in foreign interest rates and in the price of imported oil. Should adverse facts occur in these variables, the government may resort to another portion of the international solvency reserves, which amounted to US\$ 9.5 billion in December 1979.

With regard to inflation, its reacceleration has been primarily caused by the high level of deficit in the public sector, a marked expansion of credit to the private sector, the occurrence of climatic adversities and the consequent withering of agricultural crops, readjustment of salaries — including the full recomposition of the buying power — and extraordinary increases in the price of imported oil. With basis on this diagnosis, monetary authorities have adopted a series of measures against inflation, establishing new regulations for the economy's public and private sectors. Such regulations include the readjustment of prices, wages and interest rates and limitations on the monetary, Union and government owned companies' budgets as well as the presetting of the official monetary indexation and exchange devaluation variations for 1980.

Before brief comments are made on such measures, two aspects should be explained. The first one consists in the specific character of the

Brazilian economy featured by the State's expressive participation, not only in the performance of the traditional regulating functions, but also by the significance of the State productive sector. This participation can be summarily represented by the managing of around 70% of the gross fixed capital formation, with significant reflections on the maintenance of long-term growth, the efficiency of inductive policies for private activities, etc.

The second aspect consists in the pointing out of the year 1979 as a highlight in the process of national development, in view of the possibilities of recomposition of the political-social scene, together with the redefinition of priorities at the economic level. From this viewpoint, and considering the aggravation, in the past year, of the foreign accounts unbalance and of the inflationary pressures, the governmental authorities have established the bases for a social pact intended to equitably distribute among the producing agents — public agencies, bankers, private entrepreneurs and workers — the burden of the corrective measures which are the essence of short-term policies.

In the context of anti-inflationary policy, it should first be stressed that in countries like Brazil, in which inflation is a chronic factor, the society and the government adopt a great number of mechanisms that minimize its most disruptive effects. Such is the case of indexation or monetary correction, applied to nearly all debit and credit relationships existing in the economy. As a result, additional effects of inflation occur only when there are changes in its acceleration rate. At such turnabout moments, psychological components and usual expenditure anticipation or deferment practices, as well as price resetting, assume great significance in creating inflationary expectations which, themselves, feed the inflationary process.

Nevertheless, and in spite of such defense mechanisms, after long periods of high and growing rates of inflation, negative outcomes are to be expected. The latter are particularly related to distortions in the allocation of real and financial resources among productive sectors; to the relative price of factors and foreign currency, and to the margins of utilization of installed capacity in the short term. The awareness of these and behavioral characteristics was taken into account by the monetary authorities in adopting measures leading to the reversion of inflationary expectations and the ulterior decline of the inflation rate itself.

Therefore, in the context of wage policy, during the first semester of 1979, the establishment of salary levels was made with basis on direct agreements between class unions and employers. Finally, in August a new policy was established by the Economic Development Council — CDE, to be effective during the period in which inflation shall remain high. According to this new policy, semi-annual readjustments are provided for, in compliance with the INPC (National Consumer Prices Index), and added to the rate of increases in work productivity for each sector. The percentage resulting from this formula is applied in inverse rates, accordingly, to different levels of income (110% for income up to 3 minimum wages; 100% from 3 to 10 minimum wages; and 80% for income exceeding 10 minimum wages), in order to lessen salary unbalances. With a view to preserving such income gains and to reducing the growth in inflation, companies are to absorb a part of the increase in costs derived from rising wages, as they may transfer to final prices only the part of production cost increase which refers to the correction of the monetary value of salaries.

In the same month of August, the National Monetary Council — CMN — determined that interest rates charged by commercial banks, on new consumer credit operations, be limited, through the application of a 10% reducer on the then current average rates. This measure was complemented, last January, by the establishment of a 54% ceiling for rates paid on commercial funding through bank deposit certificates, tuning with the presetting of the monetary indexation and exchange variation for 1980.

In addition to establishing wage and domestic interest rate control measures, as mentioned, the governmental authorities also regulated increases in private and public company's prices, which shall be readjusted only twice a year, in periods subsequent to the increase in the prices of the main components of their cost structures, and only after at least four months have elapsed since the time of the last increase. It is thus the government's intention to keep temporary cost pressures from transforming into permanent raises incorporated into the inflation rate.

In connection with the regulation of the activities of the public sector itself, the Government's new financial policy, established in December last and in the two initial months of the current year aims chiefly at controlling the monetary, the Union's and the government-owned

companies' budgets. The policy is also based on direct control, by the Central Bank, of the remaining federal banks' accounts; on the restriction of direct imports made by the state companies and the elimination of credit and fiscal subsidies, except for those related to regional priorities (the Amazonian and Northeastern regions), the production of exportable manufactured products and the agricultural sector.

The previously mentioned procedures were accompanied by relevant decisions concerning the exchange parity and monetary correction, which are essential to the establishment of governmental guidelines for 1980. The effects of such measures are to be simultaneously felt in the stabilization of both public finance and balance of payments, as well as in the slowing down of the inflationary pace. The first such measure was the maxidevaluation of the cruzeiro at 30% in relation to the dollar, taken on December 7, 1979, which brought the exchange rate to its equilibrium point, thus making it possible to resume the minidevaluation system governed by the difference between the Brazilian inflation and that of its main partners in foreign trade. Immediately afterwards, the government set at 45% the monetary indexation of the ORTN's (National Treasury's Readjustable Bonds) and at 40% the exchange devaluation for the year 1980. In addition to the expected psychological effects, such decisions provide indicators capable of reducing the degree of uncertainty of the economic agents, especially those of the private sector, that, when allowed more realistic calculations of expected costs and returns, are induced to maintain the level of investments.

Subsequent steps along the course of financial policy were the determination of the monetary budget for 1980, which established the expansion of the money supply (currency issued held by the public, plus demand deposits in commercial banks) at 50% (in comparison with 73,7% in 1979), the rate of increase of the banking system's credit to the private sector at 45% and an identical percentage for increase on loans from Banco do Brasil, the priorities of which are agricultural and export activities. At the occasion, the system of financial subsidies was also altered, so as to limit them to strictly priority sectors and regions. Fixed interest rates were thus eliminated from subsidized financings, and variable rates formed by a minimum of 2% p.a. interest plus a percentage of the ORTN monetary indexation adopted. The constraint

in disbursements represented by those changes contributes to the improvement of the Federal Union's finances. At the same time, the Federal Government's income gained additional support from increased taxation through higher personal and corporate income tax rates as well as higher tax rates on industrialized products. The elimination of fiscal incentives for industrialized exports is also to be noted.

Complementing the Government's financial area reorganization, maximum limits of global expenditure by the 213 largest government-owned companies were established, last February, for 1980, totaling an amount of Cr\$ 1 trillion, 147 billion. The investment limits for these companies were also established, at 36% of that total; foreign funding is not to exceed US\$ 3 billion 125 million, while direct imports are restricted to a total of US\$ 3 billion 300 million, equivalent to 80% of imports effected by these same companies in 1979.

With reference to the foreign trade policy, reformulations adopted as of December 1979 – with nearly total recovery of the Brazilian currency's exchange parity through a maxidevaluation – completed a series of measures that, on one hand, caused increases in inflation of corrective nature, but on the other hand, brought the recovery of the efficiency of exchange, fiscal and taxing devices. It became therefore possible to put an end to the excessive and prolonged manipulations involving relative prices (by means of fiscal exemptions and credits, quotas, compulsory deposits etc.) which had been entailing unfavorable effects on the domestic allocation of funds and restrictions to foreign trade.

Therefore, the new exchange rate levels allowed for the taxation of exports of agricultural products and compensated for the suspension of fiscal incentives for manufacture exports, ahead of the gradual elimination time schedule multilaterally negotiated and that would otherwise be totally accomplished only by June 1983. This has already resulted in the elimination of compensatory overtaxes charged on Brazilian manufacture exports in the North American market. As to imports, maxidevaluation presents similar compensatory effects related to the suppression of the compulsory previous deposit equivalent to 100% of the imports value.

With relation to foreign capital loans, some changes were also introduced, in December 1979, regarding the intake acceptance

procedures and the cost for the final borrower, in order to keep them attractive vis-à-vis the domestic loans. Such alterations make it possible for contracts about to fall due to be renewed, and allow for the easier additional funding in the amounts suggested by the governmental authorities. The compulsory 50% retention on amounts borrowed was abolished; however, the disbursement of the other half of such amounts in scheduled instalments was maintained, in order to reduce the impact of exchange conversion on the system's solvency. Income tax charged on interest remittances and banking fees, in this type of operation, was reduced from 12.5% to 1.25%. On the other hand, funds from foreign loans, voluntarily deposited at the Central Bank in the foreign currency equivalent value were frozen in December, and now may only be handled for payment of amortization debts abroad or for conversion of the respective capital loans into direct investments or otherwise, in special cases as may be decided by the Central Bank.

Finally, it is possible to say that besides favoring the achievement of short-term goals, the series of alterations effected in the economic policy now analysed caused the elimination of an excessively complex system of administrative rules and the simultaneous recovery of efficiency on the part of foreign trade and monetary policy tools, especially with regard to impacts exerted on the monetary expansion, originating in the foreign exchange and public sector budgets.

III) NEW SECTORIAL PRIORITIES

As we are to infer from both the previously expressed growth strategy concepts and the conduction of the economic policy, the redefinition of national priorities became an urging need, without prejudice to the purposes and aims imposed by the evolution of society and of the country's economy itself.

However, the continuity of the Brazilian development process is faced with a large outlook of possibilities and restrictions which lead to the acceptance of priority arrangements. In practice, this definition is expressed by the privileged support granted to some sectors of the productive system.

Therefore, in the short term, activities to benefit from such policy are those which can immediately contribute to the attenuation of inflationary pressures and the generation of exportable surpluses, namely, in the Brazilian context, the agricultural and farming sector, both in terms of final product and raw material production. Agricultural conditions in Brazil also offer a significant additional possibility to complement the restructuring of the energy matrix, by using vegetal fuel as substitute for considerable amounts of the automotive gasoline and diesel oil consumed, which are responsible for about 50% of total oil by-products' consumption.

It should be emphasized that the agricultural sector had already been granted, in April 1979, a series of incentives to production growth, by increasing both the planted area and the sectorial productivity, with basis on the traditional instruments represented by minimum satisfactory prices, purchase of surpluses and adequate availability of credit. In summary, according to the authorities responsible for the sector, the agricultural policy proposes to finance plantations, guarantee harvests and reimburse losses.

In this particular aspect, in view of the aggravation of the energy problem and entailed consequences affecting the Brazilian economy, the National Alcohol Program (PROÁLCOOL) is to be pointed out among the alternative solutions available. Its main purpose is to increase the domestic alcohol production so as to enable it to serve as carburant fuel and industrial input. The proposed increase is being reached at stages consistent with the redirectioning of the production-transportation-consumption complex comprising a number of integrated activities in the agricultural raw materials and special equipment production areas; production, distribution and utilization of alcohol and technological research and development. Expenditure on the Proálcool program, as estimates up to 1985, corresponds to about US\$ 5 billion.

In the line of longer term effects, it is to be mentioned that in addition to the perfect definition of fund sources, the basic criterion for ranking of the new programs in the charge of the public sector itself or under its management responsibility, considers their contribution in terms of net generation of foreign reserves and employment. It also attends to the better utilization of the domestic equipment producing complex and

the availability of production factors and inputs. Under these circumstances and in addition to the agricultural and farming sector, programs in the energy and infrastructure areas, specially transportation and warehousing, are also qualified.

In summary, at the present stage of the national development, Agriculture, Energy and Infrastructure form the trinomial expression for keeping up the long-term dynamic pace of the Brazilian economy, thus rendering its growth strategy feasible and providing the necessary conditions for fairer social sharing of benefits resulting from the process.

As hereinafter explained, the financial contribution of the BNDE, System, in compliance with its development functions in the Brazilian institutional framework became concentrated on the above sectors.

IV) THE PERFORMANCE OF THE BNDE SYSTEM

The BNDE System, formed by the Bank and its four Subsidiaries, is the main financial instrument of the governmental policy of promoting capital formation. It is essentially incumbent upon it to supply long-term funds, under proper disbursement and cost conditions, to national priority settlements.

Ever since its creation, in 1952, BNDE has pursued three permanent goals: incentive to the economic and social development, strenghtening of the national private enterprise and attenuation of regional and social unbalances in income distribution.

The achievement of such goals has implied the reorientation of financial support to different sectors of the national economy, in accordance with the stage of diversification of the productive structure at each historic period. So, in the immediate postwar period and during the initial years of its functioning, the Bank applied nearly the total amount of its funds to the remodeling of the precarious national transportation system, particularly the railway network, and to the expansion of the electric power generating capacity.

After the most crucial limitations imposed by infrastructure bottleneck points on the consolidation of the domestic market were overcome, BNDE's support was redirected to the field of basic industries, especially iron and steel, metallurgy, mechanics and naval construction.

In the mid-sixties, the continuation of the development effort required a diversification of the Bank's lending program, which then concentrated on direct support to the national private enterprise, along an expressive segment of the transformation industry. In the last five years, the global development strategy, materialized in the Second National Development Plan, attached priority to the establishment and consolidation of the capital goods and basic inputs producing sectors, to which BNDE's financing action was then channeled, making it possible to enhance the import-substituting industrialization process.

More recently, in the light of the transition faced by the Brazilian economy vis-à-vis the need to alleviate balance of payments pressures and restore the equilibrium of the energetic inputs utilization structure, the BNDE system has been promoting, since 1979, the repositioning of its performance strategy. The consequent displacement benefits the energy, infrastructure and agriculture macrosectors, without prejudice to the continuity of the financial support, both to the conclusion of large import-substitution projects in the basic inputs area and to the consolidation of the domestic equipment producing complex.

As a result, the operations of BNDE and other units composing the System shall, in the coming five-years period, massively turn to the areas of energy, infrastructure and to the support of rural development, in compliance with the priority goals of the Government's economic policy.

The detailing of such strategy is already resulting in the implementation of sectorial programs, such as railway transportation, iron and steel industry, agriculture and the Alcohol Program, which are starting to be supported by the BNDE System, under agreements signed with the respective governmental agencies in charge of these sectors. Negotiations with the Ministry of Mines and Energy with the intention of providing support to relevant sectors of the transformation industry and aiming at conserving and substituting oil-derived energetic inputs are already at an advanced stage.

In the sphere of the effort represented by the financing of these large programs, the support to the rural sector demanded, in 1979, the signature, by BNDE, of an agreement with the Ministry of Agriculture, providing for the disbursement, until 1984, of Cr\$ 100 billion, at 1979 prices. This commitment originated other operational agreements with all States of the Federation. It should be added that such agreements with the States were ulteriorly expanded in order to assist specific urban infrastructure and industrial district projects, in every case with BNDE's own budget funds.

Further emphasis should be given to the need to maintain the financial support granted to import substitution and to the expansion of the export capacity in sectors traditionally assisted by BNDE such as fertilizers and pulp, respectively. In the cement sector, finance aimed at continuous self-sufficiency is essential, so as to avoid the already detected possibility of occurrence of an accumulated deficit of about 22 million tons in the period 1981/85. With regard to pulp, a clear recovery of the world market can be identified, which justifies new additions to the installed capacity in this sector, that offers the country an undeniable comparative advantage.

With a view to reaching an effective performance at this stage of the development process, the BNDE System has devoted itself to improving the efficiency of the capital goods and basic input sectors, both from an operational and specially from a technological viewpoint.

In line with these views, the dynamic character of mentioned sectors is on the one hand connected with the actual execution of the economic policy's new priorities concerning the supply of infrastructure services, mainly transportation and storage of agricultural products and energetic inputs; of essential consumer goods, chiefly food; and of oil-substituting energetic inputs.

On the other hand, the emphasis placed by the BNDE System on those sectors contributes to consolidating the nationalization of the economy, since, in these sectors, not only is there a prevalence of domestic companies but also less dependence on foreign technology. That emphasis furthermore contributes to restraining the tendency to import, in view of the lower utilization of foreign components as compared, for instance, to durable consumer goods. Considering that

the sectors in question utilize less intensive technology in terms of capital, production increase corresponds to significant employment generation.

Among its functions concerning the execution of the economic policy, emphasis should also be given to the incentive provided by the Bank and its network of agents — in supporting investments in the public and private spheres — to the priority goals to which new stress is now being granted. Such goals are the improvement of the quality of living, the creation of new jobs and the raising of the income distribution standards at both personal and regional levels, with the resulting increase in the consumption of essential goods and services by low income classes and in less favored regions.

Simultaneously with the effective execution of the government's priority programs previously indicated, on which the largest amount of funds to be disbursed is concentrated, the BNDE System has, through its financial agents, continued its lending to the domestic small-and-medium-size enterprises. This procedure aims at both rendering feasible the regional investment opportunities, and at promoting the strengthening of the state development banks' system.

In brief, the performance of the BNDE System's main features are the preservation and better organization of sectors forming the industrial basis recently established in the Country, and the intensification of support to the priority sectors of energy, agriculture and infrastructure.

It is also important to note that neither the financings of sectorial programs and projects in the "priority concentration areas", nor the operations effected through financial agents imply the aggravation of inflationary pressures, in view of their adequate distribution in the pluriannual disbursement budget, and that such lendings furthermore present perfectly definite fund sources.

We shall now proceed to presenting the main guidelines which are to lead the way of BNDE's activities in the context of "concentration areas", with the purpose of rendering the government's priority goals for the coming years operational at the project level.

With regard to the energy area, the financial contribution of the BNDE System is intended to grant support to the PROÁLCOOL, the

prospection, research and mining of coal and the increase of charcoal supply. Support is also given to the programs for conservation and substitution of petroleum-derived energetic inputs, notably in the production of cement, steel, ceramics, paper and pulp, for adaption of the oil refining structure and for rationalization of petrochemical complexes. Such programs, which provide for better energy conservation and immediate utilization of alternative sources, are supplemented by the continuing support to the generation, transmission and distribution of energy of traditional sources.

As to the infrastructure sector, the action taken by the BNDE System, which is complementary to the already developed governmental effort, is oriented towards the achievement of the following goals:

- Increase of the efficiency and quality of services in certain segments, with the purpose of attending to the needs of more dynamic sectors and areas, or of lower income population groups, as well as reinforcing the urban passenger transportation systems so that these may require a lower consumption of oil-derived energy.
- Support to the organization of the machinery and equipment producing complex, by means of standardizing orders placed by the public sector.

BNDE's support is aimed at integrated projects which induce deep operational changes, thus contributing not only to the elimination of obstacles to continued growth, but to the organization of the equipment supply complex and the redirectioning of infrastructure services as well. Also favored by BNDE's preferential support are the cargo transportation and storage projects intended to solve crucial problems involving the outflow of certain raw materials and basic energetic and industrial inputs such as alcohol, coal and charcoal, phosphate concentrate, cement, etc. Special attention is granted to agricultural inputs and its by-products, particularly their export production.

On the other hand, the BNDE System maintains the support traditionally granted to rural and subrural roads, now integrated to systems of shipment at the source and storage for distribution. Financial contribution is also assured to the infrastructure of the industrial and agroindustrial districts and occasionally to projects for

expansion of the electric power transmission and telephone systems in large population centers. The BNDE System also gives equally preferential support to programs for integrated urbanization comprising service infrastructure, popular housing, industrial areas and service centers, especially near the industrial poles and complexes.

The action in the field of infrastructure is also sensitive to the need for attenuation of regional unbalances, emphasis being attributed to projects intended to overcome problems concerning bottleneck points in the economy of less developed regions.

In relation with the development of the rural sector, BNDE's financial support favors integrated agricultural and agroindustrial projects for production of essential food products, reforestation and agricultural products for export, with an underlying objective of maximizing both the local impact and the social return of applied funds.

The support to the above sector includes, in addition to the industrial part, the distribution and marketing stages, for as long as these may represent hindrances to the efficient outflow of production to the final markets. It is therefore complementary to the Agricultural Credit System which, through a large network of financial agents, already adequately provides the sector with working capital and special credits.

In line with this orientation, the BNDE System, either directly or through operational agreements signed with other agencies acting in the sector, keeps specific credit lines aiming at:

- Promoting the industrial processing of the agriculture-and-farming production so as to make this activity more efficient, by means of decreasing losses, providing for better storage facilities and increased value added, in the case of exportable products.
- Promotion of investments resulting in the increase of supply of goods and services demanded by the rural activity, with emphasis on the production of fertilizers, both corrective and defensive, agricultural machinery and tools; construction of rural and subrural roads; the development, expansion or improvement of the network of warehouses and silos at the source, when integrated into the transportation network; the modernization and expansion of agricultural products'

supply systems; major irrigation projects; rural telephone and electrification systems; production of selected seedlings and seeds; and agricultural-and-farming research and experimentation.

It is obvious that the emphasis placed on programs in "priority concentration areas" does not mean a reduction of effort elsewhere. On the contrary, it assumes the utilization of the installed capacity and the conversion of parts of the capital goods industry so as to adapt them to the new priorities.

The support to priority goals therefore implies the maintenance of financings now extended by the BNDE System to the programs for consolidation and integration of the industrial structure in the areas of basic inputs, especially iron and steel and capital goods, which mean an indispensable backing to priority goals.

Finally, considering that the implementation of the series of activities mentioned requires a substantial amount of funds at adequate cost and repayment conditions, it is essential to keep up the financial scheme created with the objective of rendering the necessary funding feasible.

In its endeavor to obtain financial resources, BNDE has been emphasizing domestic funding, while keeping foreign borrowing as a complementary source. However, in view of the convenience of contributing to governmental efforts toward the restraining of public expenditure and inflationary pressures, in addition to collaborating in the efficient administration of the foreign debt it is desirable that BNDE maintain its access to the international financial market, in which it is already accredited in consideration of its solid financial position, acknowledged by the international banking community.

BNDE's presence in the international financial market is already traditional, in terms of its action as a repassing agent for multilateral and government financial institutions, as a borrower — also active in the bond market — and as a historically faithful guarantor as well. This tradition has contributed to BNDE's ranking as a prime borrower and enabled the country to obtain preferential conditions in the negotiation of some of its loans.

ANNEXES

BRAZIL

ECONOMIC INDICATORS – (1972 to 1979)

US\$ million									
SPECIFICATION	1972	1973	1974	1975	1976	1977	1978	1979 (1)	1980 (2)
1. GROSS DOMESTIC PRODUCT (4)	117.263	136.353	151.187	160.135	174.357 ⁽¹⁾	182.652 ⁽¹⁾	193.547 ⁽¹⁾	205.761	...
2. GROSS FOREIGN INDEBTEDNESS	9.521	12.572	17.166	21.171	25.985	32.037	43.511	49.500	...
2.1 – Currency Loans	5.528	7.848	11.211	14.561	18.194	21.528	29.500	...	...
2.2 – Others	3.993	4.724	5.955	6.610	7.791	10.509	14.011	...	...
3. INTERNATIONAL RESERVES	4.183	6.415	5.269	4.040	6.544	7.256	11.895	9.500	...
3.1 – Foreign Exchange	3.836	6.030	4.874	3.653	6.101	6.787	11.406	...	...
3.2 – Others	347	385	395	387	443	469	489	...	...
4. NET FOREIGN INDEBTEDNESS	5.338	6.157	11.897	17.131	19.441	24.781	31.616	40.000	...
5. DEBT REPAYMENT	-1.557	-2.187	-2.572	-3.670	-4.796	-6.163	-7.865	-10.268 ⁽³⁾	-12.400
5.1 – Amortizations	-1.202	-1.673	-1.920	-2.172	-2.987	-4.060	-5.170	-6.220	-7.000
5.2 – Net Interest	- 355	- 514	- 652	-1.498	-1.809	-2.103	-2.695	- 4.048	- 5.400
– Income	130	325	717	365	281	360	647	...	...
– Expenditure	485	840	1.370	1.863	2.090	2.462	3.342	...	...
6. EXPORTS (FOB)	3.991	6.199	7.951	8.670	10.128	12.120	12.651	15.244	20.000
7. DEBT REPAYMENT/EXPORTS	0,39	0,35	0,32	0,42	0,47	0,51	0,62	0,67	0,62
8. NET FOREIGN INDEBTEDNESS/EXPORTS	1,34	0,99	1,50	1,98	1,92	2,04	2,5	2,6	...
9. IMPORTS (FOB)	4.235	6.192	12.641	12.169	12.346	12.023	13.639	17.961	20.000
10. OIL AND BY-PRODUCTS' IMPORTS	409	711	2.840	3.073	3.846	4.081	4.485	6.190	9.600
11. OIL IMPORTS/TOTAL IMPORTS	9,7%	11,5%	22,5%	25,3%	31,2%	33,9%	32,9%	34,5%	48,0%

(1) Preliminary data

(2) Estimate

(3) Estimate "Conjuntura Econômica – Fev./80"

(4) US\$ at 1979 prices.

BNDE OUTLINE OF RESOURCES

Cr\$ million

DISCRIMINATION	1979 ⁽¹⁾	1980 ⁽²⁾	80/79 (%) INCREASE
1. ORIGINS	114.337	181.416	58,7
1.1 — Previous Year's Balance	3.875 ⁽³⁾	200	...
1.2 — Domestic Generation	41.257	69.666	68,9
BNDE's Return	20.483	31.000	51,3
Social Insurance Funds' Return	11.951	23.410	95,9
Various Incomes	2.793	3.300	18,2
Monetization of Securities	2.122	3.200	50,8
Reimbursement of Benefit (D.L. 1452/76)	3.908	8.756	124,1
1.3 — Budget Allocation	1.000	—	—
1.4 — Social Insurance Funds Transferences	40.930	58.000	43,5
1.5 — Loans and Repasses within the Country	10.017	23.451	134,1
Central Bank/Monetary Reserve	4.013	6.000	49,5
Debentures and/or Bonds	565	1.000	77,0
Central Bank/Miscellaneous Repasses	3.000	4.349	45,0
National Housing Bank/Fixed Assets and Tourism	316	802	153,8
Ministry of Industry and Commerce/Proálcool	—	4.500	...
National Housing Bank	2.123	—	—
Central Bank/Maxidevaluation Repayment	—	6.800	...
1.6 — Foreign Loans	17.258	30.099	74,4
In Currency	16.769	27.619 ⁽⁴⁾	64,7
Financings	489	2.480	407,2
2. APPLICATIONS	114.337	181.416	58,7
2.1 — Investments Budget	90.179	129.916	44,1
2.2 — Capital Expenses	21.581	48.500	124,7
Debt Repayment	20.492	47.200	130,3
Investments and Others	1.089	1.300	19,3
2.3 — Current Expenses	2.377	3.000	26,2
2.4 — Final Balance	200	—	...

(1) — 1979 data are preliminary;

(2) — 1980 values are expressed in current cruzeiros, provision being made for a 45% monetary correction and 40% exchange devaluation for the year;

(3) — utilization of third-parties funds deposited with BNDE is included;

(4) — Cr\$ 2,511 million concerning operations contracted in the previous year and retained at Central Bank are included.

NOTES: a) Dollar average rate in 1979: US\$ 1,00 = Cr\$ 26,642.

b) Estimate of dollar average rate in 1980: US\$ 1,00 = Cr\$ 51,036.

BNDE INVESTMENTS BUDGET

Cr\$ MILLION

PROGRAMS	DISBURSEMENTS IN 1979	(%)	PROVISION FOR 1980	(%)	80/79 INCREASE (%)
INDUSTRY	42.096	46,1	49.400	38,0	17
AGRICULTURE	1.555	1,7	7.485	5,8	381
ENERGY	500	0,6	4.832	3,7	866
INFRASTRUCTURE	5.846	6,5	6.822	5,3	17
SUBSIDIARIES	33.931	37,6	53.498	41,2	58
OTHER SECTORIAL PROGRAMS	6.251	6,9	7.879	6,0	26
TOTAL	90.179	100	129.916	100	44

NOTES: a) Dollar average rate in 1979: US\$ 1,00 = 26,642

b) Estimate of the dollar average rate in 1980: US\$ 1,00 = 51,036

BNDE SYSTEM INVESTMENTS BUDGET

Cr\$ BILLION

BNDE SYSTEM	DISBURSEMENTS IN 1979	PROVISION FOR 1980	80/79 INCREASE (%)
1. BNDE's Total	90,2	129,9	+ 44
2. Repasses to Subsidiaries	33,9	53,5	+ 58
2.1. FINAME	22,7	33,6	+ 48
2.2. EMBRAMEC	1,8	2,9	+ 61
2.3. FIBASE	6,9	12,3	+ 78
2.4. IBRASA	2,5	4,7	+ 88
3. BNDE's Net (1-2)	56,3	76,4	+ 36
4. Subsidiaries (*)	55,6	86,9	+ 56
4.1. FINAME	43,6	66,0	+ 51
4.2. EMBRAMEC	2,0	3,0	+ 50
4.3. FIBASE	7,3	13,2	+ 81
4.4. IBRASA	2,7	4,7	+ 74
BNDE SYSTEM (3+4)	111,9	163,3	+ 46

(*) BNDE's repasses plus applications' return are included.

NOTES: a) Dollar average rate in 1979: US\$ 1,00 = Cr\$ 26,642

b) Estimate of the dollar average rate in 1980: US\$ 1,00 = Cr\$ 51,036

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