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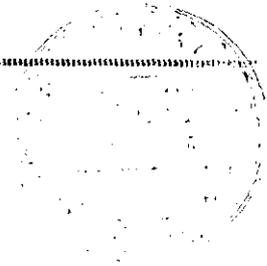
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ECONOMIC SURVEY OF LATIN AMERICA

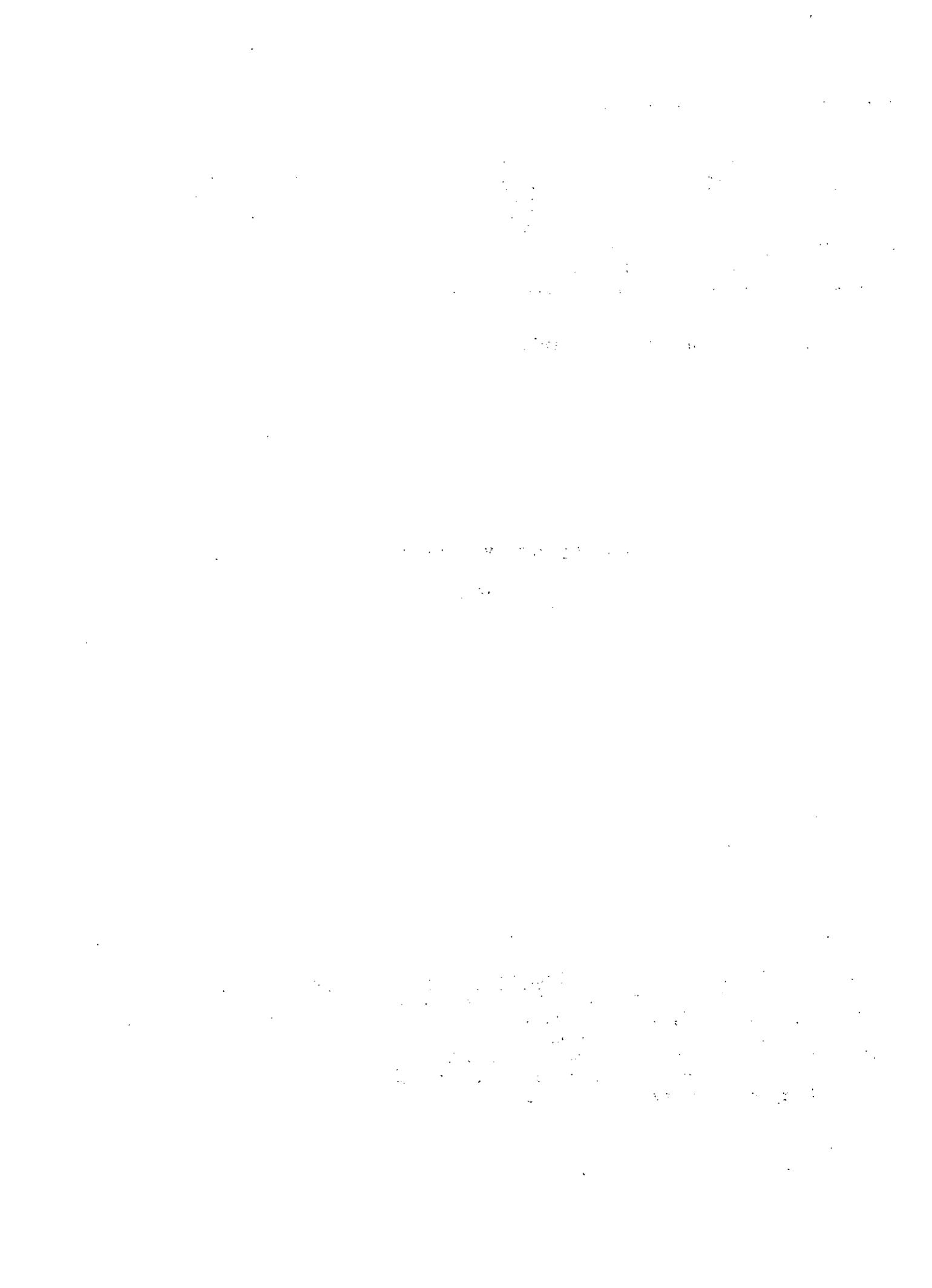
1979

BRAZIL

This preliminary version of the Economic Survey of Latin America, 1979 is being distributed in 27 separate parts: an Introduction of a general nature, bearing the symbol E/CEPAL/R.227, and 26 Addenda to this document, each containing a study of the economic development of a country of the region. These Addenda will not appear in alphabetical order, but in order of completion. The complete Survey will be published in the usual printed version when the comments arising out of this preliminary version have been collected.

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BRAZIL

1. Main recent trends: Introduction and summary

The gross domestic product grew by 6.4% in 1979, a rate very similar to the average for the period 1975-1978. Inflation and the external imbalance, which were especially noticeable from 1974 onwards, intensified greatly and employment increased a good deal less than did the labour force, so that open unemployment and underemployment grew worse.

In 1979, economic policy was principally aimed at confronting the problems of inflation and the balance-of-payments situation while simultaneously attempting to maintain a growth rate of the product that could absorb a labour force growing by 3% per year. Under this policy, priority was given to the agricultural sector, which had been showing a downward trend recently and which, it was felt, had to be expanded in order to increase exports and improve the domestic supply of basic food items. Due to adverse climatic factors, however, the agricultural sector grew by only 3%, barely recovering from the drop of 1978. It is hoped that the agricultural stimulation policies that were applied in 1979 will have an effect next year.

Aside from the growth of the product it did not prove possible to reach the other 1979 economic policy goals. The inflation rate nearly doubled, increasing from 41% in 1978 to 77% in 1979, and the balance-of-payments current account deficit exceeded US\$ 10 billion, equivalent to 65% of the value of exports for the year.

The Brazilian economy's performance in 1979, which continued the trends already displayed in the decade, is directly related to the evolution of the international economy and the economic policy that was subsequently tested in order to balance the Brazilian economy and adapt it to the new international situation. The international crisis and its development after 1974 accentuated the domestic problems with regard to inflation, the balance-of-payments situation and public financing (the latter being connected with the nature of the taxation system and the economic incentives system). These difficulties were aggravated by the evolution of the output of agricultural foodstuffs and energy limitations.

/The long-term

The long-term economic policy continued to be development-oriented, attempting to combat these problems gradually, but it did not succeed in overcoming the factors of domestic imbalance, both functional and structural, or in counteracting influences from abroad. High growth rates were reached although they were lower than in the period 1968-1973, and the public investment programmes formulated in that period of expansion were continued. The investment coefficient reached unprecedented levels, exports benefited from a generous subsidy policy, and an attempt was made to reduce imports.

The evolution of the international economy, however, led to higher prices for imported goods and particularly for petroleum, as well as increases in interest rates on external loans. This caused an increased balance-of-payments current account deficit, growing external indebtedness and high rates of inflation.

The increase in the balance-of-payments current account deficit was the result of the growth of more than 30% in the value of imports of goods and services, contrasting with a rise in exports of only 21%. Part of this imbalance was due to a new deterioration in the terms of trade (by nearly 9%). The financing of these imbalances forced depletion of the net international resources by nearly US\$ 2.9 billion and raised external indebtedness by more than 13% (see table 1).

Two different orientations in the short-term economic policy were observed in 1979. After March, a recessive policy was implemented in order to eliminate excessive domestic demand, which was leading to inflation and external imbalances. Excepting only the agricultural sector and export activity, the objectives were to slow down growth, contain wage increases, reduce public expenditure and exercise strict monetary control.

However, the development-oriented tendencies always present in the Brazilian society and economy and the opening up of the political scene promoted by the new Government created conditions for a switch in the orientation of the economic policy after August 1979. The objectives of combating inflation and the balance-of-payments disequilibria without forcing a recession and while preserving the priority of the agricultural sector and of exports were reaffirmed on the basis of different hypotheses about the behaviour of the domestic economy, and in this way increased coherence with the domestic political and social situation was achieved.

This new orientation was based on the assumed existence of unused capacity in the agricultural sector and manufacturing and attempted to correct the major imbalances by simplifying the complex administration of foreign trade and concentrating the country's economic management in the Planning Ministry.

Nevertheless, the aggravation of economic problems during the second half of the year led to the adoption in December of a set of more drastic measures.

The principal elements among these were an extraordinary 30% devaluation of the cruzeiro in addition to the policy of mini-devaluations; reduction of export subsidies; the elimination of prior deposits for imports and travel abroad, and the introduction of various measures to promote the inflow of foreign capital and reduce speculation. Furthermore, price controls were restored in order to avoid the immediate transferral to the prices of popular consumer goods of the effects of the devaluation.

The priority given to the agricultural sector by the new administration became especially evident from May onwards through the increase in minimum prices to producers and the expansion of credit lines at nominal interest rates below the domestic inflation rate. However, during the second half of the year the agricultural policy lost its initial autonomy and in practice the stimuli to the sector were reduced, since minimum prices and the volume of credits were not kept in line with the inflation rate.

With regard to labour policy, certain changes in orientation with respect to the past 15 years took place in 1979, in line with the climate of greater political flexibility. The unsatisfied demands of the labour sector and the economic situation itself gave rise to conflicts in which not only wage increases but also the revision of existing labour legislation were demanded.

Although some of these conflicts were declared illegal, increased official tolerance of them and the gradual reestablishment of wage negotiations between workers and employers were observed. In November, wage legislation was reformed: a system of automatic, twice-yearly adjustments based on the national consumer price index was established, with an additional adjustment of 10% for workers earning up to three times the minimum wage and a supplementary adjustment for increases in productivity.

/Finally, energy

Finally, energy problems were considerably accentuated in 1979 due to the Brazilian economy's sensitivity to the evolution of the international energy situation. Over 50% of the primary energy consumed (excluding firewood) came from petroleum, 85% of which was imported; consequently, the increases in petroleum prices on the international market adversely affected the balance-of-payments situation and stimulated domestic inflation.

## 2. Trends in economic activity

### (a) Global supply and demand trends

Global supply increased by 6.6% in 1979 due to the relatively rapid growth of imports (see table 2). As already indicated, the gross domestic product increased by 6.4%, but real income rose by only 6% because of the sharp (9%) deterioration of the terms of trade for the second consecutive year.

The volume of imports increased by 10%, which raised the import coefficient to 7.2%. It may be recalled that between 1975 and 1977 this ratio declined appreciably due to import restrictions and to the very process of import substitution promoted in that period.

The growth of global demand came mainly from the increased exports of goods and services (10%). In 1979, because of the Government's policy of restricting public expenditure, gross fixed investment increased at a rate of 5%, compared with 9% in 1978. Thus, the share of external resources in investment financing climbed from 14% in 1978 to nearly 20% in 1979. The investment coefficient declined slightly, from 24.7% in 1978 to 24.4% in 1979, but nevertheless remained at a high level as it has done for the past 10 years. The share of consumption in global demand rose because total consumption grew by nearly 7%.

### (b) Growth of the main sectors

In 1979, mining performed excellently and the agricultural sector recovered somewhat, whereas there was a slackening in the growth of manufacturing and construction. It should be noted, however, that the industrial sector continued to be a decisive element in the growth of the gross domestic product, since it generated more than 30% of it.

The drop in the growth rate of manufacturing and construction took place in the second half of 1979, although the expansion recorded in the first half had been greater than in the same period of the previous year. This was probably due to the combined effect of a restrictive economic policy (and the consequent reduction of the domestic market) and uncertainty regarding the future evolution of the economic policy and the domestic economy. In practice, however, because of circumstances and factors of a political nature, the contractive aims which the Governments had assigned to fiscal and monetary policy were not applied in accordance with the initial scheme.

The basic services sectors again showed greater dynamism in 1979 than did the productive sectors, while other services grew at a rate very similar to that of the gross domestic product (see table 3).

(i) Agriculture. The product of the agricultural sector increased by 3%, thus recovering from the 1.7% decrease of 1978. The crop-farming situation was improved, since the growth rate ascended to 7% after having fallen by an equal amount in 1978, but livestock activity declined by 5%, in contrast with the strong increase recorded the year before (see table 4).

Except for sugar cane, the higher output in the principal crop-raising categories was due almost exclusively to a partial recovery from the drops recorded in previous years as a result of various climatic problems. Although these problems were less severe in 1979, previous output levels could not be recovered completely.

In the past, the fixing of prices at levels which did not satisfy farmers had had adverse effects on the sector's output. An attempt was made to correct this situation with the new price levels fixed in 1979, but the effects will not be felt until the 1980 harvest.

Certain distortions of the rural credit machinery which have been noted recently also affected the sector's performance negatively: among them are the concentration of rural credit in the hands of the producers of export products, which harms the small and medium-sized farmer who produces for the domestic market, and the diversion of agricultural credits to other activities because of the differences in interest rates.

/The greatly

The greatly increased outputs of groundnuts, oranges, maize, wheat and, to a lesser extent, sugar cane were noteworthy in the recovery of crop-farming. The maize harvest increased by 21%, but even so could not make up for the fall that took place in 1978, and the wheat harvest, although 17% higher than the year before, also did not recover the 1976 level due to unfavourable climatic conditions in the final months of the year, especially in Rio Grande do Sul. Sugar cane production continued to expand at a high rate (8%), principally due to the stimulus from the programme of using alcohol for energy.

Production in other important crop-raising categories grew at moderate rates (5% for rice, 4% for coffee, 4% for soya and 6% for cotton), but the higher levels of previous years were not recovered in any of these cases. Bean production virtually stagnated at a level slightly below that of previous years, thus accentuating the declining trend in per capita output of this product, which is a mainstay of the people's diet.

The decline in livestock activity was due to lower levels of cattle slaughtering and milk production. Cattle slaughtering decreased by 8% as a result of the reduction of herds and the retention of fertile females, while milk production was affected by low prices and climatic problems.

The policies adopted in 1979 to stimulate the agricultural sector may be summarized under three headings: greater credit advantages for the various activities in the sector, increased minimum prices for the principal crops in order to improve the producer's receipts, and improvements in the crop insurance system.

(ii) Mining. In 1979, mining activity had the highest growth rate of recent years (10%), but continued to represent an extremely small portion of the gross domestic product (less than 1%).

Iron ore output increased by 11% and the physical volume of its exports grew by nearly 14%, exceeding the 1975 level which was the highest of the previous five-year period.

Manganese output fell slightly (-2%) but its exports continued to expand at a very high rate (33%), although the volume exported in 1975 has still not been matched.

/There was

There was an increase of 4% in petroleum output because of the entry on stream of offshore wells. The output of onshore wells continued to decline because the Recôncavo Baiano oilfields are nearing exhaustion.

(iii) Manufacturing. The growth of manufacturing activity declined slightly in 1979 (7% compared with 7.6% the previous year). The decrease was noticeably concentrated in the final months of the year and was due to the disappointing performance of production for the domestic market, since exports of manufactured goods continued to increase at high rates.

The slower growth rate of demand for manufactured goods was due, inter alia, to the contractive policy introduced at the start of the year, although the uneven application of this policy prevented it from having a greater impact on manufacturing activity. Some of the measures were aimed at limiting the financing of sales of durable goods, but they were not as effective as had been expected. Unfavourable forecasts for the future evolution of the economy also played a role in the sector's performance: it was feared that because of growing difficulties in controlling inflation and the external imbalance, the Government would be forced to take drastic measures which would ultimately provoke a recession in economic activity.

On the other hand, the priority assigned to agriculture as regards credit required a more restrictive policy in other sectors in order to avoid greater expansion of the means of payment.

In analysing the performance of manufacturing, one notes a clear decrease of growth rates in the production of consumer goods, both durable and non-durable, while growth rates for intermediate and capital goods increased slightly, this latter phenomenon being related to the performance of industrial exports and the progress of the programme of import substitution (see tables 5 and 6).

Thus, the biggest rises were in plastic articles (25%), paper and paperboard (13%) and metallurgy (11%), where the import substitution programmes begun by the Government in earlier years were concentrated. In 1979, steel output showed significant growth rates in its various headings: the growth of steel ingot production (14%) exceeded that reached in 1978 (8%) and the output of rolled products increased by 17%, compared with 15% the year before (see table 7).

/Production in

Production in the transport equipment industry increased by 5% in 1979: a significantly lower figure than in the previous year, although similar to that for the five-year period 1974-1978. The decline was partially caused by the performance of motor vehicle-production, which slowed appreciably (a growth rate of only 2% compared with the previous year's 15%) because of the restrictive policies regarding the financing of purchases of durable consumer goods (see table 8).

However, exports of durable consumer goods increased by nearly 33%.

(iv) Construction. The growth rate of construction was somewhat less than 4% - the lowest figure of the past fifteen years - mainly because of the policy of restricting public investment. The available financial resources were used slowly in activities connected with highway construction and water projects (see table 3).

Projects left over from the previous year were completed in the first quarter of the year, but after March, the policy of economic deceleration was felt more intensively than in other sectors, especially because of sharp cuts in the public sector's capital expenditures, which also declined because of the strong inflationary pressures during the year.

Loans from the Housing Financing System (the National Housing Bank, public savings banks, real estate credit societies, commercial and investment banks and other agents authorized to perform this type of credit operation) increased by nearly 60% in 1979. This figure was lower than the rise of 77% in the general price index between December 1978 and December 1979, however: an event without precedent in the 1970s.

(v) Energy. Total energy demand continued to grow at a rate close on 10%.<sup>1/</sup> Petroleum consumption increased by 7%, similar to the rate of the past five years, and crude oil imports exceeded one million barrels per day, which meant a rise of 11.5% and an annual cost of nearly US\$ 6.1 billion. Petroleum imports represented 34% of total imports.

In 1979, the country produced 166,000 barrels of petroleum per day and the output grew by 4%, which was the first recovery since production started to drop after 1974 because of the depletion of onshore wells.

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<sup>1/</sup> All supply and demand estimates presented here exclude energy from wood.

In 1975, energy generation problems led to the formulation of a policy of increasing the country's petroleum output, conserving and rationalizing the use of energy, substituting non-traditional sources of energy (alcohol) for petroleum products and making maximum use of domestic energy sources (coal, hydroelectricity and others).

However, domestic petroleum production has increased very slowly, and has centered around offshore wells. PETROBRAS has continued its programme of land exploration without any significant results. In an attempt to reduce petroleum consumption, restrictions on gasoline sales were expanded and the prices of all petroleum products were considerably increased. Since the price of gasoline increased proportionally more than the price of other products, the relative consumption of these products, especially diesel oil, increased and this situation - together with the great difficulties involved in changing the energy-use pattern - has made it impossible to achieve the proposed limitation of crude oil consumption. On the other hand, the petroleum exploitation system was changed to allow domestic and foreign private companies, in addition to PETROBRAS, to participate in prospecting activities.

Among the various programmes for developing non-traditional replacement energy sources, the alcohol programme received proportionally the greatest support. This programme forecasts an alcohol output in 1985 equivalent to 154,000 barrels of petroleum per day (approximately 5% of the energy consumption for that year), of which 85% would replace gasoline or be mixed with it. However, according to recent official and non-official estimates, the goal will be extremely difficult to reach because of problems connected with the operating capacity required in order to carry out a great number of projects and the large amount of investments which must be made in the next five years.

An important restricting factor on this programme's success is the availability of lands which can immediately be used to achieve the three simultaneous objectives established for agrarian policy: improving the balance-of-payments situation (which means increasing agricultural output for export); combating inflation (increasing food production for the domestic market); and reducing energy dependence (principally by expanding the output of sugar cane for transformation into alcohol). It was observed that between 1974 and 1979, in only three agricultural regions of the State

of São Paulo, sugar cane replaced other crops on 376,000 hectares, of which 105,000 had previously been used for food products for domestic consumption, principally rice and maize.<sup>2/</sup>

Total electricity consumption grew by 13%, with similar rates for the various different types of use. This increase was greater than that for total energy consumption (10%) and petroleum consumption (7%), and the relative importance of electricity as an energy source grew accordingly.

Electricity output was 11% greater than in 1978. Hydroelectricity made up 92% of the total output, thus increasing its share in the total amount of electricity produced in the country. Installed capacity increased by 12.5% over 1978, and 85% of it came from water power.

The expansion of generating capacity was due to the completion of projects undertaken in previous years, so that it did not suffer the negative effects of the policy of restricting public investment. ELECTROBRAS gave priority to projects whose operations would be completed in one or two years and which had secure financing, and also to south/southeast and north/northeast interconnexion projects; which will help to improve the use of the existing generating capacity.

(c) Developments in employment and unemployment

The employment situation deteriorated sharply in 1979, when the number of people employed in the metropolitan area increased only 2% with respect to the previous year. Since the economically active urban population grew by 4%, it may be concluded that unemployment must have increased in proportion. In the metropolitan regions of Rio de Janeiro and São Paulo, employment increased by 0.1% and 2.3%, while the annual growth of the economically active population was 4.2% and 5.8%, respectively.

This deterioration of employment in urban areas became worse as the year went on, since its cumulative growth over 12 months was only 2% in December, whereas it had reached 3.4% in the first quarter.

These results show that the economy was clearly incapable of generating urban jobs for the population on the job market. The problem becomes even more acute if it is kept in mind that in the immediate future it will be difficult to maintain growth rates of the product similar to those recorded in 1979, because of difficulties in the balance-of-payments situation and inflation.

<sup>2/</sup> "O Programa Nacional do Alcool e os impactos na agricultura Paulista", study by the Institute of Agrarian Economics of the Ministry of Agriculture of the State of São Paulo, quoted in the magazine Visão, Vol. XXIX, No. 8, March 1980.

### 3. The external sector

#### (a) The balance-of-payments current account

(i) Main trends. The balance-of-payments disequilibrium was greatly intensified in 1979 (see table 9). The current account deficit increased by nearly 50% over that of 1978 and, measured in dollars at current prices, exceeded even the deficit of 1974, which until then had been the highest recorded in the country. However, the current account deficit as a percentage of income on the same account (63%) was smaller than in 1974 (87%).

In 1978, there were increases in both the trade and services account deficits, as well as net factor payments abroad. The increase in the trade deficit was due principally to the rise in import prices, which was far greater than the rise in export prices. This made the terms of trade index drop by nearly 9% to the lowest level of the 1970s (see table 10).

Exports of goods performed satisfactorily, increasing 22% in value as a result of similar increases in the volume and unit value of sales. However, this only served to offset the effects of the import price rises, and the purchasing power of exports of goods remained nearly stagnant. Imports of goods grew by 32% in value as a result of an increase of around 20% in the unit value and 10% in volume.

The deficit on the real services account increased by 34% with respect to the previous year to a total of US\$ 2.3 billion, of which US\$ 1.3 billion corresponded to transport.

Net payments of profits and interest on foreign capital continued to grow at a high rate (28%), reaching US\$ 5.4 billion. Interest payments absorbed around US\$ 4 billion. This was 50% more than in the previous year, and is largely explained by the high level of indebtedness in 1978.

(ii) Exports of goods. In 1979, the global value of exports of goods rose very sharply (the most since 1974) due to the recovery in the prices and volume of exports of basic commodities and the upward trend which exports of industrial products continued to evidence.

The value of exports of basic commodities increased by more than 8%, while that of exports of industrial products rose by 33%. Thus, the traditional composition of exports continued to change, and exports of

/industrial products

industrial products accounted for well over half the total value of exports. The share among them of goods with a higher grade of processing (manufactures) reached nearly four-fifth of total exports, whereas in 1973 it had been only slightly more than one-fifth (see table 11).

Among basic commodities, the value of exports of coffee beans decreased by nearly 3% because of a reduction in the volume exported, their price having increased by 7.5%. This reduction was due to the policy implemented by Brazil and other exporters of holding back the product in order to protect its price on foreign markets. Since coffee represents more than half of Brazilian exports of basic commodities, this prevented the value of these exports from declining as much as in 1978 (12%).

As in 1978, soya bean exports were affected by unfavourable climatic conditions in the central-south area of the country. Although external sales of soya bean flour and cake (nearly recovered the level reached in 1977, foreign currency income under this heading barely exceeded US\$ 1.3 billion, only 70% of the value achieved in 1977.

Continuing the expansion of the previous year, external sales of iron ore increased by 25% due to the increase both in physical volume and in prices.

Exports of other basic commodities such as cocoa and sugar partially recovered from the low levels of 1978, the comeback in sugar exports being due to a slight improvement in that product's prices on foreign markets.

With regard to industrial exports, nearly all the products developed in a positive manner. Exports of manufactured products totalled more than US\$ 6.6 billion - nearly a third more than in 1978 - and semi-manufactured products grew by a very similar percentage.

Exports of transport equipment, the main item among the industrial products, expanded by 33% to a value of nearly US\$ 1.1 billion as a result of a clear consolidation of this export trend which began essentially in 1973. Among the other industrial products, metal manufactures and machinery also increased sharply, as did exports of footwear, which grew by 25%. In contrast, orange juice sales were unable to maintain the high level reached the previous year.

/The success

The success achieved in recent years in exports of manufactured goods is not unrelated to the existing system of strong incentives, whereby the subsidies provided for industrial exports represent a high proportion of their value. It is estimated that of every dollar's worth of textile products exported in 1975, the equivalent of 71 cents was granted in subsidies, while the amount for vehicles was 66 cents. These figures had not changed substantially up to 1979. The incentives policy led to frequent accusations of dumping by purchasing countries, while at the domestic level it created problems in the fiscal and monetary sphere.

In view of this situation, the export incentives policy was reviewed, and at the beginning of 1979 a gradual reduction of subsidies and other incentives was planned, to be offset by an acceleration of the rate of devaluation of the cruzeiro.

In line with this policy, in 1979 the average devaluation of the cruzeiro with respect to the United States dollar was nearly 10% greater than the domestic inflation rate corrected by inflation abroad (see table 12). However, the size of the incentives continued to create public financing problems and thus made it difficult to manage the monetary policy. For this reason, the reduction of incentives was accelerated in December: all export subsidies were eliminated and replaced by an extraordinary devaluation of the cruzeiro of around 30%. Credit lines for export at subsidized interest rates, however, were continued.

Finally, it should be noted that the method of applying the exchange rate policy has not varied in the last four years, and in 1979 the policy of small periodic devaluations continued.<sup>3/</sup> However, the policy orientation changed when the downward trend which the real exchange rate had been following since 1975 was reversed, and the exchange rate's rapid increase in 1979 probably explains in part the growth of the volume of exports.

(iii) Imports of goods. In 1979, the value of imports of goods grew by the exceptionally large amount of 32%, whereas during the period 1975-1978 the average annual growth rate had been only 2%. The greater volume of

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<sup>3/</sup> The exchange rate was adjusted 18 times during the year (excluding the extraordinary devaluation in December) by devaluations ranging from 1.6% (in January) to 5.2% (in September).

external purchases (nearly 10%) was compounded by a 20% price increase, mainly due to the 32% rise in the price of petroleum and to significant increases in the prices of other imported goods, which as a whole rose by 15%.

The volume imported increased, both for petroleum and for other intermediate goods. With respect to petroleum, the rise was due to the fact that consumption continued to grow at high rates.

The increase in the volume of imports of consumer goods was largely due to increased purchases of foodstuffs caused by problems in agricultural production for the domestic market. Imports were also stimulated by expectations of currency devaluations, which led many firms to make their external purchases early. The current value of imports of capital goods, however, grew much more slowly than the year before (see table 13).

The import policy was modified in December 1979 as part of a group of measures which included the extraordinary devaluation of the cruzeiro. These measures were aimed at reducing the import restrictions (which had been in effect since 1974, when the value of imports had doubled) as well as tax exemptions. To this end, prior deposits for imports were abolished and tax exemptions on imports of capital goods were eliminated, except for projects in the north and north-east areas. However the 1980 amount of imports to the free zone of Manaus and the public sector was limited.

(b) The capital account

The short- and long-term capital account had a net foreign capital inflow of US\$ 7.6 billion, approximately 30% lower than in 1978 (see table 9). In 1979, nearly three-quarters of the current account deficit was financed by inflows of foreign capital, and the remainder was financed with part of the international reserves, which decreased by US\$ 2.9 billion, although even so the amount of reserves at the end of the year was equivalent to approximately six months' imports of goods.

The reduction in net capital inflow was due to a drop in income in the form of loans, accompanied by an increase in amortization payments. This decrease in the inflow of foreign exchange was the result of the policy of restrictions adopted in April 1979, which required half of the amount of new loans contracted abroad to be frozen in the Central Bank and limited the /contracting of

contracting of new loans by the public sector. This policy was aimed, on the one hand, at diminishing the growth of the external debt, thus preventing greater increases in the domestic means of payment and, on the other, at encouraging the conversion of the debt into contributions of capital (direct investment). However, the increase in direct foreign investment in 1979 was around 13%, which is not an exceptionally high figure if compared with previous years.

(c) The external debt

In 1979, the external debt increased at the lowest rate of the 1970s. At 31 December 1979, it came to US\$ 49 billion (including public, private and State-guaranteed debts), which represented an increase of slightly more than 10% over the US\$ 5.5 billion recorded at the end of 1978. This growth rate, significantly lower than the 29% annual average for the 1970s, was the result of the policy of restrictions on the contracting of foreign loans and the increase of amortization payments by nearly 26% with respect to 1978.

Financial credits, which make up approximately two-thirds of the external debt, grew at a rate slightly higher than that of external debt as a whole. Credits pending with official bilateral agencies decreased, while debt contracted through the placing of bonds increased (see table 14).

The level of the external debt necessitated great outflows of funds in amortization payments, which gradually reduced the net contribution of new external financing. As table 15 shows, the burden represented by the servicing of the debt has grown rapidly in recent years, particularly in 1978 and 1979, both because of the structure and level of the indebtedness and because of the rise in interest rates. Thus, in 1979 debt servicing cost more than three times as much as in 1974, with amortization payments reaching US\$ 6.5 billion and interest payments amounting to US\$ 4.2 billion: increases of 26% and 48% with respect to the 1978 levels. In this way, external debt servicing in 1979 nearly equalled the amount of medium- and long-term loans received during the year, whereas in 1974 it had only equalled one-third of them.

After 1974, the debt servicing also grew rapidly in relation to income from exports of goods, and in 1979 it reached 70%: nearly double the average value for the period 1970-1974.

/Finally, the

Finally, the relation between the amount of the debt and the gross domestic product increased throughout the decade, reaching 23% in 1979, a figure similar to that recorded the previous year.

#### 4. Prices, wages and salaries

##### (a) Price trends

Between December 1978 and December 1979 inflation increased considerably, nearly doubling with respect to the corresponding previous period. The inflation rate of almost 77% recorded in 1979 was the highest of the 1970s, and was exceeded only by the rates of 1964 (92%) and 1963 (81%).

The general price index from December to December, calculated on the basis of domestic availability - a concept which is used most often in Brazil as a measure of inflation - grew by 77% in 1979: i.e., much more than the 40% recorded in 1978 and the 39% in 1977. The wholesale price index grew somewhat more rapidly, while the increase in the consumer price index in Rio de Janeiro was similar to that of the general index. The index of construction costs in that city, on the other hand, grew a good deal more slowly than the above-mentioned indexes, although it too was appreciably higher than in 1978 (see table 16).

These results show that the fight against inflation, one of the main objectives of the Government's economic policy, was not as successful as had been expected, although a substantial portion of the price increase was considered as corrective inflation, deliberately provoked in the second half of the year with the decision to adjust prices that had become out of phase or excessively restricted (see table 17). This government policy was applied especially to the cost of public services, leading to a 104% increase under this heading in the consumer price index, and to the prices of some food items which had become scarce because of lean harvests.

Partly because of the concentration of the price increases during the final months of the year, the average annual variation in 1979 was considerably smaller (54%) than the variation between December 1978 and December 1979 (77%). At all events, the average increase in 1979 was the highest of the 1970s.

/Another important

Another important factor in the aggravation of inflation was the increased price of imported goods, especially petroleum, which rose altogether in dollar terms by more than 32%. This led to a significant increase in the domestic prices of petroleum products and other products with imported components.

The price rises were also influenced by the exchange rate policy, which led to a depreciation of the cruzeiro against the United States dollar far greater than those of previous years, even before the extraordinary devaluation on 7 December.

The monetary and fiscal policies were aimed at containing the inflationary process with a target of a maximum increase of 30% in the means of payment during the year, but by the end of 1979 the means of payment had grown by 74% with respect to December 1978. Thus, the official goal could not be reached, both because of domestic and external inflation and the fear of provoking a recession (see table 18).

The price control measures applied at various levels during the year were subject to variations, but after December a more rigorous system was established whereby these controls were entrusted to the Planning Ministry, for application through the Special Department for Supply and Prices (SEAP).

(b) Wages and salaries policy

During the first months of the year, in a climate of political liberalization, there were generalized wage demands by the trade unions which in many cases led to wage adjustments greater than inflation.

Nevertheless, in 1979 the average real minimum wage was 2% lower than in the previous year, in spite of the fact that a new wage law was approved in October which reduced the timespan between adjustments to six months (previously, it was a year) 4/ and established an automatic procedure to determine new increases on the basis of a national consumer price index 5/ (see table 19).

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4/ In this law, the view was taken that wage increments should be differentiated according to income levels: wages up to the equivalent of three minimum wages would receive 110% of the price increase, those between three and ten minimum wages would receive 100% of it, while those greater than 10 minimum wages would have an adjustment lower than the price variation.

5/ If the previous system of annual adjustments had been maintained, the deterioration of real minimum wages would have reached nearly 5% instead of the 2% actually recorded.

The new law also permitted real wage increases on the basis of productivity. As a result of this new policy, the average real wage in the industrial sector increased by nearly 4% in 1979.

## 5. Monetary and fiscal policy

### (a) Monetary policy

The monetary policy formulated in early 1979 was of a restrictive nature, with the aim of "cooling down" the economy by containing global demand. It formed part of an economic policy directed at controlling inflation, gradually adjusting the balance-of-payments situation and maintaining at least minimum acceptable levels of economic growth. This was why the monetary budget for 1979 established the goal of maximum growth of 30% for the quantity of money and of 37% for total credit in the monetary system, postulating an inflation rate of 40%.

This orientation of the monetary policy was subsequently ratified in March by the new administration, which also stressed credit support to the agricultural sector with the aim of increasing the supply of foodstuffs and agricultural exports and also helping to contain inflation and improve the trade balance.

Like the rest of the economic policy, the monetary policy went through two phases during the year. Up to August, restrictive measures were applied in a partial and uneven manner. After August, the management of monetary policy was firmer, although this did not mean that the original goals were reached. Furthermore, as an additional measure against inflation, efforts were made to create expectations that the rising interest rate trend in the financial market would be reversed.

The goals set out in the monetary budget were not reached: the quantity of money increased by 74% and credit in the monetary system grew by 70% (see table 19). The monetary authorities were forced to adjust their initial goals because the very policy adopted to reduce interest rates militated against these aims and inflationary pressures, both domestic and foreign, were greater than had been expected. Hence, the original targets had to be altered and, in particular, the levels of agricultural credit had to be raised in order to allow them to stimulate production effectively.

/The increase

The increase in the amount of money beyond what had been planned was caused mainly by the rise in the monetary base or currency issues, which grew by 84% due to the freeing of the frozen part of foreign loans, increased loans from the Banco do Brasil and the operations on the open market.

With respect to the first of these factors, it should be noted that the inflow of external loans had been high from early 1978 to mid-1979 due to the difference between domestic and foreign interest rates, adjusted as a function of the devaluation of the cruzeiro. In 1978, various measures had been adopted in order to discourage the use of foreign credit through the temporary freezing of the counterpart funds in cruzeiros, but these measures contained the monetary expansion only temporarily. In the first half of 1979, after the freeze period established the previous year had expired, these resources were gradually freed, with a consequent expansionary effect. As the inflow of external loans continued to increase rapidly in April 1979 new restrictive measures were taken, but it was only in the second half of the year that these, together with the reduction of the difference between domestic and foreign interest rates, succeeded in diminishing the inflow of loans from abroad.

These events helped to reduce the international reserves as had been planned, to a certain extent, by the monetary authorities.

Subsequently, because of the sharp deterioration in the balance of payments during the final months of 1979, these restrictions were slackened in December in order to permit an increased inflow of external resources in 1980. Simultaneously, in order to avoid undesirable monetary expansion, the freezing of deposits in foreign currency under Resolution 432 was decreed.<sup>6/</sup> Because of the acceleration of the mini-devaluations and the prospects of a maxi-devaluation, these deposits had increased at a dizzy pace, reaching US\$ 5.5 billion in early December, or more than half the international reserves at that time. In order to avoid the strong expansionary impact which the conversion of these funds to cruzeiros could have, the Government

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<sup>6/</sup> Resolution 432 allows debtors in foreign currency to make deposits in the Central Bank to cover their future obligations, with the Bank assuming the risks of exchange and international interest rate increases. However, the debtors may withdraw their deposits upon 30 days' notice.

/decreed that

decreed that they should be frozen and authorized their liberation only for the servicing of the external debt, the conversion of this debt into direct investment, or use on priority projects.

Loans from the Banco do Brasil were a second factor of monetary expansion, especially from September onwards. Over the first eight months of the year they grew moderately (27%), but in the last four months they increased by 30%, bringing the annual increment to 65%. The expansion during the final months was mainly due to the boost in credits granted to the agricultural sector in order to support the 1980 crop year.

The third factor of expansion was the functioning of the open market. Purchases or redemptions of National Treasury Bonds by the Central Bank grew rapidly as from September, so that National Treasury Bonds in the hands of the public decreased by 67.5 billion cruzeiros in the final four months of 1979. This was accomplished by lowering the rate of return on the bonds, especially during the final quarter, with the result that the public lost interest in acquiring them. These measures were made possible by the lower public financing needs because of the limited growth of expenditure and the lower liquidity caused by the restriction of the inflow of external resources during the second half of the year, which facilitated the purchase of National Treasury Bonds by the Central Bank. At the same time, the Government attempted to stimulate the market for Readjustable National Treasury Debentures (2- and 5-year securities) in order to improve the structure of the domestic public debt.

A basic factor in limiting the supply of money was the drop in international reserves of around US\$ 2.9 billion caused by the balance-of-payments current account deficit and the significant decrease in the inflow of external loans.

In 1979 there was a preference for financial assets of greater liquidity, which led to the decline of the growth rate of quasi-money, and especially to a decrease in the total amount of National Treasury Bonds outside the monetary system, as well as lower growth of fixed-term deposits (see table 19). The latter was due to the reduction of interest rates on loans which the Government decreed as of September, forcing banks to lower their interest

/rates on

rates on deposits and redirecting the resources of the financial market towards monetary assets and variable-return bonds. Only time deposits showed a high growth rate (80%), due to their rate of return and fiscal incentives.

Total credit extended to the private sector by the financial system grew by 64%, thus reversing the trend of recent years, when this item grew at rates somewhat lower than inflation (see table 20). Loans from the monetary system grew by 68% and those from the non-monetary system by 60%, the latter being in response to specific credit restriction measures.

The Banco do Brasil increased its agricultural loans by 73% and those to other sectors by 56%. This reflects the priority given by the Government to the financing of agriculture, although it must be noted that the final destination of the credits was somewhat distorted due to the existence of subsidized interest rates.

Following a trend in effect since 1976, the Banco do Brasil again decreased its participation in the financing of the private sector, which sank to 42% in 1979 compared with the 1976 figure of 46%. This drop benefited commercial banks, whose loans expanded even more than their deposits because the high obligatory cash reserve rates reduced the percentage of sight deposits among their total resources.

Thus, loans from commercial banks grew by 71% despite the measures adopted in April to contain their expansion. For this reason, the calculation of obligatory cash reserves on sight deposits was modified, the minimum term of time deposits was extended (although it was subsequently reduced in August), and the commercial banks' authority to issue deposit certificates as a form of guarantee for obtaining credits was cancelled.

(b) Fiscal policy

Fiscal policy in 1979 was mainly directed at achieving a budget surplus, containing the expansion of public debt and restricting capital expenditure by public enterprises.

Initially, a surplus of 40 billion cruzeiros was predicted on the basis of a containment reserve to be obtained by freezing 20% of the budgetary resources in the Banco do Brasil for specific purposes. Nevertheless, legal provisions adopted in November and December gave greater flexibility to

/public sector

public sector spending, and the surplus in the accounts of the National Treasury finally came to barely 2.3 billion cruzeiros: less than half the previous year's level in nominal terms, less than one-third in real terms, and very far from the proposed target.

Expenditure and income increased by around 46%, which meant that in real figures they decreased by around 5%. However, it should be noted that these results cannot be considered as indicative of the effect of the Government's accounts on the economy, since they do not include the budgetary execution of public enterprises and decentralized bodies. Nor are the accounts of the National Treasury for the financial year a faithful reflection of the Government's financial management, since they exclude expenditure items which appear in the monetary budget, such as the subsidy for food products and the servicing of the domestic public debt, inter alia.<sup>7/</sup>

Tax revenue increased by 44%. The low yield of the tax on manufactured goods should be noted: this is in line with the trend displayed by this tax throughout the decade, which has caused its percentage share of total tax revenue to drop almost by half. This reflects the exemptions granted principally for industrial development and the export - and, to a lesser extent, the production - of popular consumer goods.

An important policy measure with regard to the management of the public sector's resources was the establishment in October of the State Enterprise Control Department, whose jurisdiction extends not only to public enterprises but also to mixed enterprises, those controlled directly or indirectly by the Federal Government, autonomous bodies and even to foundations and entities which receive direct or indirect contributions from the State. Its establishment was aimed at controlling the inflow and use of the resources of these enterprises, the budgetary contributions received by them and their domestic and foreign financing. In this way it is sought to control the spending of State enterprises, which in 1980 will probably exceed one-third of the gross national product.

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<sup>7/</sup> See the section on Brazil in CEPAL, Economic Survey of Latin America, 1977.

Domestic public debt increased by 46% in nominal terms. This means that it decreased in real terms, declining from 11% of the gross domestic product in 1978 to 10% in 1979. As a result of the policy aimed at improving the structure of the domestic debt, the latter was slightly changed, since National Treasury Bonds (for less than one year) came to represent 52% of the entire debt; in previous years they had grown rapidly to constitute 54% of the debt in 1978.



Table 1

## BRAZIL: MAIN ECONOMIC INDICATORS

	1975	1974	1975	1976	1977	1978	1979(a)
<b>A. Basic economic indicators</b>							
Gross domestic product at factor cost (thousands of millions of dollars at 1970 prices)	61.80	67.90	71.70	78.20	81.80	86.80	92.30
Population (millions of inhabitants)	103.07	105.72	108.40	111.11	113.86	116.64	119.46
Per capita gross domestic product (dollars at 1970 prices)	600	642	662	704	719	744	773
<u>Growth rates</u>							
<b>B. Short-run economic indicators</b>							
Gross domestic product	13.9	9.8	5.7	9.0	4.7	6.0	6.4
Per capita gross domestic product	11.0	7.0	3.1	6.3	2.1	3.5	3.9
Gross income (b)	14.7	8.9	5.4	9.6	5.2	5.2	6.0
Terms of trade	9.4	-15.0	-6.1	8.7	8.5	-13.1	-8.7
Current value of exports of goods and services	53.4	28.9	10.5	15.2	19.4	5.1	21.0
Current value of imports of goods and services	45.5	91.8	-2.5	2.7	-0.9	12.6	30.5
General price index (c)							
December - December	15.5	34.5	29.4	46.3	38.8	40.8	77.2
Variation between annual averages	13.1	28.7	27.7	41.3	42.7	38.7	53.9
Money	47.0	33.5	42.8	37.2	37.5	42.2	73.9
Current income of government	40.1	45.3	24.3	74.2	46.1	43.8	46.0
Total expenditure of government	37.4	38.8	31.8	73.8	45.8	42.4	47.4
Fiscal deficit/total expenditure of government (d)	5.6	5.3	0.1	0.2	0.5	1.4	0.5
<u>Millions of dollars</u>							
<b>C. External sector</b>							
Trade balance (goods and services)	-1 073	-6 278	-4 999	-3 939	-1 678	-2 875	-5 059
Balance on current account	-2 163	-7 758	-7 076	-6 530	-5 114	-7 038	-10 450
Variation in net international reserves	2 313	-1 217	-1 045	2 522	400	3 958	-2 860
Consolidated external debt	12 572	17 166	21 170	25 968	32 037	43 511	49 340

Source: CEPAL, on the basis of official data.

(a) Preliminary figures.

(b) Gross domestic product plus terms-of-trade effect.

(c) Domestic availability.

(d) Percentage.

Table 2

## BRAZIL: TOTAL SUPPLY AND DEMAND

	Millions of cruzeiros at 1970 prices			Percentage breakdown		Growth rates		
	1977	1978	1979(a)	1970	1979(a)	1977	1978	1979(a)
	<b>Total supply</b>	<u>425 081</u>	<u>450 532</u>	<u>480 485</u>	<u>106.9</u>	<u>107.2</u>	<u>4.1</u>	<u>6.0</u>
Gross domestic product at market prices	397 438	421 393	448 362	100.0	100.0	4.7	6.0	6.4
Imports of goods and services (b)	27 643	29 139	32 123	6.9	7.2	-3.9	5.4	10.2
<b>Total demand</b>	<u>425 081</u>	<u>450 532</u>	<u>480 485</u>	<u>106.9</u>	<u>107.2</u>	<u>4.1</u>	<u>6.0</u>	<u>6.6</u>
Domestic demand	<u>401 089</u>	<u>423 834</u>	<u>451 098</u>	<u>100.3</u>	<u>100.6</u>	<u>3.9</u>	<u>5.7</u>	<u>6.4</u>
Gross domestic investment	...	...	...	23.5	...	...	...	...
Gross fixed investment	95 074	104 046	109 352	22.3	24.4	-6.0	9.4	5.1
Changes in stocks (c)	(c)	(c)		1.2	...			
Total consumption	306 015(c)	319 788(c)	341 746(c)	76.9	76.2(c)	7.4(c)	4.5(c)	6.9(c)
General government	37 802	40 351	...	10.2	...	-1.3	6.7	...
Private	268 213(c)	279 437(c)	...	66.7	...	8.7	4.2	...
Exports of goods and services (b)	23 992	26 698	29 387	6.6	6.6	7.5	11.3	10.1

Source: CEPAL calculations on the basis of figures supplied by the National Accounts Centre of the Getulio Vargas Foundation.

(a) Preliminary figures.

(b) The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by CEPAL for the purpose.

(c) Changes in stocks are included in private consumption.

Table 3

## BRAZIL: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of cruzeiros at 1970 prices			Percentage breakdown		Growth rates		
	1977	1978	1979(a)	1970	1979(a)	1977	1978	1979(a)
	<b>Agriculture</b>	<u>27 290</u>	<u>26 826</u>	<u>27 685</u>	<u>10.0</u>	<u>7.4</u>	<u>9.6</u>	<u>-1.7</u>
Mining	2 830	3 004	3 299	0.8	0.9	-4.7	6.1	9.9
Manufacturing	98 898	106 416	113 867	28.4	30.3	2.3	7.6	7.0
Construction	22 494	24 685	25 634	5.8	6.8	9.1	9.7	3.8
Subtotal goods	<u>151 512</u>	<u>160 931</u>	<u>170 485</u>	<u>45.0</u>	<u>45.4</u>	<u>4.4</u>	<u>6.2</u>	<u>5.9</u>
Electricity, gas and water	9 464	10 599	11 922	2.4	3.2	12.9	12.0	12.5
Transport, storage and communications	20 114	21 483	23 654	5.7	6.3	4.1	6.8	10.1
Subtotal basic services	<u>29 578</u>	<u>32 082</u>	<u>35 576</u>	<u>8.1</u>	<u>9.5</u>	<u>6.8</u>	<u>8.5</u>	<u>10.9</u>
Commerce, financial institutions and insurance	68 896	72 963	77 562	20.7	20.7	3.5	5.9	6.3
Real estate (b)	...	...	...	8.4	...	...	...	...
Community, social and personal services (c)	...	...	...	17.8	...	...	...	...
Subtotal other services	<u>152 820</u>	<u>160 934</u>	<u>...</u>	<u>46.9</u>	<u>...</u>	<u>2.6</u>	<u>5.3</u>	<u>...</u>
<b>Total gross domestic product (d)</b>	<u>338 756</u>	<u>359 173</u>	<u>382 160</u>	<u>100.0</u>	<u>100.0</u>	<u>4.7</u>	<u>6.0</u>	<u>6.4</u>

Source: 1977-1978, CEPAL calculations on the basis of figures supplied by the National Accounts Centre of the Getulio Vargas Foundation; 1979, CEPAL estimates on the basis of data from the same source.

(a) Preliminary figures.

(b) Refers to ownership of dwellings only.

(c) Also includes restaurants, hotels and business services.

(d) As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 4

## BRAZIL: AGRICULTURAL PRODUCTION

	Thousands of tons				Growth rates			
	1976	1977	1978	1979	1976	1977	1978	1979
Cotton	1 279	1 903	1 571	1 663	-27.0	48.8	-17.5	5.9
Groundnuts	514	324	325	462	16.6	-37.0	0.3	41.9
Rice	9 560	8 935	7 242	7 592	26.8	-6.5	-19.0	4.8
Bananas (a)	380	410	412	413	8.5	6.8	0.5	0.4
Potatoes	1 816	1 896	2 015	2 115	8.8	4.4	6.3	5.0
Cocoa	232	250	284	298	-17.7	7.8	13.6	4.7
Sugar cane	103 282	120 171	129 223	139 741	13.0	16.4	7.5	8.1
Coffe	708	1 915	2 451	2 543	-72.0	170.5	28.0	3.7
Beans	1 842	2 282	2 188	2 181	-18.9	23.9	-4.1	-0.3
Oranges (b)	36 670	35 822	39 091	48 861	15.8	-2.3	9.1	25.0
Maize	17 845	19 246	13 533	16 327	9.1	7.8	-29.7	20.6
Soya	11 227	12 513	9 535	9 949	13.5	11.5	-23.8	4.3
Wheat	3 215	2 066	2 677	3 140	79.8	-35.7	29.6	17.3
Crop-farming production					0.4	11.7	-7.0	6.9
Crop-farming production (excluding coffee)					9.7	7.0	-9.8	7.2
Livestock production					12.2	5.3	9.7	-4.7
Total agricultural production					4.2	9.6	-1.7	3.2

Source: Fundação Instituto Brasileiro de Geografia e Estatística (IBGE); Agricultural Studies Centre of the Getúlio Vargas Foundation.

- (a) Millions of hands.  
(b) Millions of units.

Table 5

BRAZIL: GROWTH OF MANUFACTURING PRODUCTION BY  
GROUPS OF INDUSTRIES  
(Growth rates)

	1975	1976	1977	1978(a)	1979(a)
Food products	-0.1	11.3	5.6	3.3	2.3
Beverages	5.5	13.4	13.6	7.1	5.0
Tobacco	7.9	9.1	5.3	5.8	4.1
Textiles	2.3	6.2	0.5	5.1	5.9
Clothing, footwear, knitted goods	7.2	8.3	-5.2	8.0	4.0
Plastic articles	5.1	17.8	-0.6	25.3	25.3
Perfumery articles, soaps and candles	3.7	19.2	9.3	12.6	13.6
Rubber	4.7	11.2	-2.0	6.7	6.6
Paper and paperboard	-14.8	20.8	2.5	11.7	12.9
Chemical products	2.5	17.8	6.5	9.0	7.5
Processing of non-metallic minerals	9.0	12.0	8.3	5.6	5.5
Metallurgy	9.2	13.5	7.2	5.7	10.9
Machinery	15.1	14.7	-7.2	4.8	7.1
Electrical equipment	0.5	18.4	1.4	9.4	8.0
Transport equipment	0.5	7.2	-2.6	14.2	5.1
Total (b)	3.8	12.9	2.1	7.6	7.0

Source: Fundação Instituto Brasileiro de Geografia e Estatística (IBGE).

- (a) Preliminary figures.  
(b) The figures do not necessarily coincide with the corresponding figures in table 3, since different methods of calculation and different original sources were used.

Table 6

BRAZIL: GROWTH OF MANUFACTURING OUTPUT, BY  
CATEGORIES OF GOODS  
(Growth rates)

	1976	1977	1978	1979(a)
Non-durable consumer goods (b)	11.5	-0.6	7.8	4.8
Durable consumer goods (c)	14.9	-0.1	14.1	7.8
Intermediate goods (d)	13.4	6.4	7.1	9.6
Capital goods (e)	12.0	-5.2	6.1	6.8
<u>Manufacturing production</u>	<u>12.9</u>	<u>2.3</u>	<u>7.6</u>	<u>7.4</u>

Source: CEPAL, on the basis of data supplied by the Fundação Instituto Brasileiro de Geografia e Estatística (IBGE).

- (a) Preliminary figures.  
 (b) Perfumery articles, soaps and candles, textiles, clothing, footwear and knitted goods, food, beverages, tobacco, furniture, leather and skins, pharmaceutical products, plastic articles.  
 (c) Machinery and equipment for domestic use, chronometers and watches, electrical apparatus for domestic and personal use, motor cars, pick-ups and utility vehicles, motor vehicle parts, spare parts and accessories.  
 (d) Processing of non-metallic minerals, metallurgy, paper and paperboard, chemical products.  
 (e) Machinery, electrical and communications equipment, transport equipment. Excludes that part of the production of industrial branches consisting of durable consumer goods.

Table 7

BRAZIL: IRON AND STEEL PRODUCTION

	Thousands of tons					Growth rates			
	1975	1976	1977	1978	1979	1976	1977	1978	1979
Pig iron	7 053	8 170	9 380	10 017	...	15.8	14.8	6.8	...
Steel ingots	8 307	9 169	11 164	12 106	13 789	10.4	21.8	8.4	13.9
Rolled products	6 738	7 525	8 822	10 134	11 887	11.7	17.2	14.9	17.3
Flats	3 166	3 487	4 530	5 596	...	10.1	29.9	23.5	...
Non-flats	3 572	4 038	4 292	4 538	...	13.1	6.3	5.7	...

Source: Instituto Brasileiro de Siderurgia (IBS) and Bulletin of the Central Bank of Brazil.

Table 8

BRAZIL: MOTOR VEHICLE PRODUCTION

	Thousands of units				Growth rates			
	1976	1977	1978	1979(a)	1976	1977	1978	1979
Motor cars	527	464	535	548	5.0	-12.0	15.3	2.4
Multi-purpose light trucks	300	308	384	407	31.0	2.7	24.7	6.1
Utility vehicles	6	2	4	6	-14.3	-66.7	100.0	61.5
Medium trucks	56	31	38	58	-5.1	-44.6	22.6	52.9
Buses and heavy trucks	96	115	101	108	12.9	19.8	-12.2	6.5
<u>Total</u>	<u>985</u>	<u>920</u>	<u>1 062</u>	<u>1 127</u>	<u>11.7</u>	<u>-6.6</u>	<u>15.4</u>	<u>6.1</u>

Source: Getulio Vargas Foundation, *Conjuntura econômica*, various numbers.

(a) Estimated on the basis of information up to November.

Table 9

**BRAZIL: BALANCE OF PAYMENTS**  
(Millions of US dollars)

	1974	1975	1976	1977	1978	1979(a)
<b>Current account</b>						
Exports of goods and services	8 652	9 563	11 015	13 148	13 815	16 716
Goods FOB (b)	7 813	8 502	9 968	11 925	12 450	15 244
Services	839	1 061	1 047	1 223	1 365	1 472
Transport	318	483	508	546	567	714
Travel	66	70	57	55	68	77
Imports of goods and services	14 930	14 562	14 954	14 826	16 690	21 775
Goods FOB (b)	12 560	12 049	12 352	12 023	13 606	17 961
Services	2 370	2 513	2 602	2 803	3 084	3 814
Transport	1 385	1 435	1 476	1 523	1 580	2 023
Travel	315	423	360	229	254	315
Net payments of profits and interest on foreign capital	-1 284	-2 029	-2 599	-3 431	-4 232	-5 438
Profits	-554	-532	-790	-1 330	-1 538	-1 390
Interest	-730	-1 497	-1 809	-2 101	-2 694	-4 048
Net private transfer payments	4	12	8	-5	69	47
Balance on current account	-7 558	-7 016	-6 530	-5 114	-7 038	-10 450
<b>Capital account</b>						
Net external financing (a+b+c+d+e)	7 558	7 016	6 530	5 114	7 038	10 450
(a) Long-term capital (net)	6 231	4 572	5 554	5 996	10 043	
Direct investment	1 327	1 202	1 394	1 824	2 011	2 262
Private sector	3 440	1 983	3 045	1 796	4 099	
Loans	5 005	3 812	5 375	4 685	7 898	
Amortization payments	-1 506	-1 717	-2 147	-2 743	-3 674	
Other liabilities and assets (net)	-59	-112	-183	-146	-125	
Official sector	1 464	1 387	1 115	2 376	3 933	
Loans	2 059	2 064	2 316	4 128	6 274	
Amortization payments	-589	-670	-1 153	-1 733	-2 058	
Other liabilities and assets (net)	-6	-7	-48	-19	-283	
(b) Short-term capital (net)	112	1 408	3 502	-487	950	5 328
Private sector	384	1 472	2 174	535	766	
Official sector	23	-5	456	-322	492	
Monetary authorities						
Errors and omissions	-295	-59	872	-700	-308	
(c) Allocation of Special Drawing Rights (SDRs)						
(d) Official transfer payments (net)	-2	-9	-4	5	3	
(e) International reserves (minus sign indicates an increase)	1 217	1 045	-2 522	-400	-3 958	2 860
Use made of IMF credit	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Monetary gold	-	-	-	-8	-4	-
Special Drawing Rights	-7	-	-9	-2	-14	-144
IMF reserve position	-	-	-53	2	26	-60
Foreign exchange and other assets	1 224	1 045	-2 460	-392	-3 966	3 064

Source: 1974-1978, International Monetary Fund, Balance of Payments Yearbook, vol. 30; 1979, CEPAL, on the basis of official data.

(a) Preliminary figures.

(b) Including non-monetary gold.

Table 10

## BRAZIL: MAIN FOREIGN TRADE INDICATORS

	1974	1975	1976	1977	1978	1979
<u>Growth rates</u>						
Exports of goods						
Value	28.2	8.8	17.3	19.6	4.4	22.4
Volume	-1.4	8.5	1.6	7.2	12.2	11.3
Unit value	30.0	0.3	15.4	11.6	-7.0	10.0
Imports of goods						
Value	104.1	-4.1	2.5	-2.7	13.2	32.0
Volume	33.5	-10.2	-3.5	-5.3	5.7	9.6
Unit value	52.9	6.8	6.2	2.8	7.0	20.4
Terms of trade	-15.0	-6.1	8.7	8.5	-13.1	-8.7
<u>Indexes (1970 = 100)</u>						
Terms of trade	90.9	85.4	92.8	100.8	87.6	80.0
Purchasing power of exports of goods	132.4	135.0	149.0	173.5	169.2	172.0
Purchasing power of exports of goods and services	145.8	152.9	167.4	194.9	192.5	201.0

Source: CEPAL, on the basis of official data.

Table 11

## BRAZIL: EXPORTS OF GOODS, FOB

	Millions of dollars					Percentage breakdown		Growth rates				
	1975	1976	1977	1978	1979	1973	1979	1975	1976	1977	1978	1979
<u>Commodities</u>	5 027	6 130	6 973	6 096	6 606	66.0	43.3	4.7	21.9	13.7	-12.2	8.4
Coffee beans	855	2 173	2 299	1 947	1 893	20.1	12.4	-1.1	154.2	6.5	-15.3	-2.8
Iron ore	920	995	907	1 028	1 288	5.9	8.4	61.1	8.2	-8.8	13.2	25.3
Soya flour and cake	466	795	1 150	1 050	1 138	6.8	7.5	53.8	70.6	44.6	-7.8	8.4
Soya beans	685	788	710	170	180	8.0	1.2	16.9	15.0	-10.1	-76.0	5.9
Unrefined sugar	770	153	277	196	247	7.3	1.7	-27.9	-80.0	81.0	-29.2	26.0
Others	1 331	1 226	1 630	1 705	1 850	17.9	12.1	-17.5	-7.9	32.9	6.9	9.1
<u>Industrial products</u>	3 434	3 618	4 889	6 386	8 479	31.3	55.6	16.2	5.4	35.1	29.8	32.8
<u>Seminufactures</u>	849	842	1 124	1 389	1 866	7.7	12.2	33.9	-0.8	33.5	20.1	34.3
<u>Manufactures</u>	2 585	2 776	3 765	4 997	6 613	23.6	43.4	11.4	7.4	35.6	32.7	32.3
Transport equipment	317	373	492	828	1 097	1.2	7.2	69.5	17.7	31.9	68.3	32.5
Machinery, boilers, and mechanical apparatus	260	266	427	566	714	1.2	4.7	72.2	2.3	60.5	32.6	26.2
Processed coffee	80	226	327	348	425	1.6	2.8	-31.0	182.5	44.7	6.4	22.1
Electrical machinery and equipment	161	189	281	315	345	1.4	2.3	-12.0	17.4	48.7	12.1	9.5
Footwear	165	175	175	281	352	1.5	2.3	37.5	6.5	-	60.6	25.3
Orange juice	82	101	177	332	296	1.1	1.9	37.7	23.2	75.2	87.6	-10.8
Others	1 520	1 446	1 966	2 327	3 384	15.6	22.2	2.4	-4.9	36.0	18.3	45.4
<u>Other products</u>	280	381	278	177	159	2.6	1.0	6.7	85.2	27.1	-35.0	-10.2
<u>Total</u>	8 669	10 128	12 139	12 659	15 244	100.0	100.0	9.0	16.8	19.9	4.2	20.4

Source: Banco Central do Brasil, Relatório 1978, vol. 15, No. 3, March 1979, and Boletim February 1980.

(a) The totals do not coincide exactly with the balance of payments figures.

Table 12

## BRAZIL: EVOLUTION OF EXCHANGE RATE

	Official exchange rate (cruzeiros per dollar)		General price index (a)	Wholesale price index of the United States	Parity exchange rate 5=6126x3/4	Ratio between official and parity exchange rate 6=1/5
	(1)	(2)	(3)	(4)	(5)	(6)
1973	6 126	100.0	100.0	100.0	6 126	100.0
1974	6 790	110.8	127.6	118.8	6 580	103.2
1975	8 129	132.7	164.5	129.9	7 758	104.8
1976	10 675	174.3	233.6	135.8	10 538	101.3
1977	14 144	230.9	335.7	144.2	14 261	99.2
1978	18 070	295.0	465.6	155.5	18 343	98.5
1979	26 955	440.0	710.9	174.8	24 914	108.2

Source: International Monetary Fund, International Financial Statistics, April 1980.

(a) Refers to the consumer price index in Rio de Janeiro.

Table 13

## BRAZIL: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1976	1977	1978	1979	1970	1979	1977	1978	1979
Consumer goods	...	931	1 116	1 287	13.6	7.1	...	19.9	15.3
Intermediate goods	...	7 991	9 001	12 941	48.1	72.1	...	12.6	43.8
Fuels and lubricants	3 842	4 081	4 483	6 698	7.0	37.3	6.2	9.9	49.4
Others	...	3 910	4 516	6 243	41.1	34.8	...	15.5	38.2
Capital goods	3 619	3 101	3 522	3 733	38.3	20.8	-14.3	13.6	6.0
<u>Total</u>	<u>12 383</u>	<u>12 023</u>	<u>13 683</u>	<u>17 961</u>	<u>100.0</u>	<u>100.0</u>	<u>-2.9</u>	<u>13.8</u>	<u>31.3</u>

Source: Central Bank of Brazil, Boletim.

Table 14

BRAZIL: PRIVATE, PUBLIC AND STATE-GUARANTEED EXTERNAL DEBT  
(Millions of US dollars)

	1972	1973	1974	1975	1976	1977	1978	1979(a)
<b>Total</b>	<b>9 521</b>	<b>12 572</b>	<b>17 166</b>	<b>21 171</b>	<b>25 968</b>	<b>32 037</b>	<b>43 511</b>	<b>47 866</b>
Compensatory loans	241	203	169	137	106	75	44	31
United States government	231	200	169	37	106	75	44	31
Others	10	3	-	-	-	-	-	-
Bonds	60	142	172	161	289	1 222	2 380	2 821
International agencies	762	972	1 388	1 655	1 993	2 355	2 885	3 224
World Bank (b)	518	695	1 076	1 239	1 447	1 731	2 154	2 354
Inter-American Development Bank	244	277	312	416	546	624	731	870
Official bilateral agencies	1 504	1 688	2 151	2 430	2 739	2 864	3 154	3 111
United States Agency for International Development (AID)	960	1 008	1 054	1 092	1 121	1 117	1 100	1 086
Programme loans	618	615	610	601	586	570	552	538
Project loans	342	393	444	491	535	547	548	548
United States wheat credits (PL 480)	108	103	97	92	87	81	76	75
United States Export-Import Bank	278	320	543	685	817	886	929	934
Others (c)	158	257	457	561	732	780	1 049	1 016
Suppliers' credits	1 136	1 442	1 812	1 980	2 414	3 773	5 343	5 742
Financial credits	5 528	7 849	11 211	14 561	18 194	21 528	29 500	32 736
Other credits	290	276	263	248	233	219	205	201

Source: Central Bank of Brazil, Boletim.

(a) September.

(b) Includes the International Finance Corporation.

(c) Includes the Canadian Wheat Board, the Export-Import Bank of Japan and the Kreditanstalt für Wiederaufbau.

Table 15

BRAZIL: COEFFICIENT OF THE EXTERNAL DEBT

	1970	1973	1974	1975	1976	1977	1978(a)	1979(a)
Millions of US dollars								
Loans and financing (b)	1 494	4 754	7 052	7 242	10 093	8 345	12 765	11 208
Debt service payments	1 072	2 306	2 606	4 050	4 648	6 300	8 013	10 700
Amortization	830	1 724	1 893	2 610	2 888	4 100	5 170	6 500
Interest (net)	242	582	713	1 440	1 760	2 200	2 843	4 200
Coefficient of the debt (percentages)								
DS	37.2	34.4	30.1	42.1	42.7	48.0	63.3	70.2
X								
DS	39.5	23.5	19.5	31.8	31.7	37.7	48.6	47.2
X+SR								
DS	71.8	48.5	36.9	55.9	46.0	75.5	62.8	95.5
LF								
D	11.5	16.1	17.5	18.7	20.8	21.9	23.0	23.0
GDP								

Source: CEPAL, on the basis of official data.

Note: DS = Debt service.

X = Exports of goods.

SR = Surplus of reserves = total reserves at the beginning of the period less import needs for three months.

LF = Loans and financing.

D = Total debt outstanding, public and private.

GDP = Gross domestic product.

(a) Preliminary figures.

(b) Medium- and long-term credits.

Table 16

BRAZIL: EVOLUTION OF DOMESTIC PRICES  
(Percentage variations)

	1974	1975	1976	1977	1978	1979
	<u>December to December</u>					
General price index (a)						
Total supply	33.8	30.1	48.2	38.6	40.5	76.8
Domestic availability	34.5	29.4	46.3	38.8	40.8	77.2
Wholesale price index						
Total supply	34.1	30.6	48.1	35.3	42.3	79.5
Agricultural products	31.2	33.7	67.0	34.2	47.6	80.5
Industrial products	35.6	39.2	40.3	35.5	39.9	78.7
Domestic availability	35.4	29.3	44.9	35.5	43.0	80.1
Raw materials	44.2	29.4	38.0	28.4	35.2	76.4
Foodstuffs	37.4	33.0	50.1	37.5	51.9	84.8
Consumer price index						
Rio de Janeiro	33.8	31.2	44.8	43.1	38.1	76.0
Food	41.4	26.2	47.1	43.9	44.4	86.4
Clothing	17.0	14.6	40.8	29.5	21.7	37.5
Housing	28.2	52.8	50.8	42.5	36.6	48.4
Articles for the home	29.8	18.9	47.4	38.8	34.9	52.3
Health and hygiene	28.5	34.7	39.7	44.9	39.0	61.2
Personal services	33.2	33.1	43.7	50.4	28.8	91.2
Public services	27.1	41.3	28.5	38.6	38.6	104.2
Construction costs						
Rio de Janeiro	31.8	24.1	58.6	44.7	37.0	63.1
	<u>Variation between annual averages</u>					
General price index						
Total supply	28.9	27.8	42.8	43.7	37.9	54.3
Domestic availability	28.7	27.7	41.3	42.7	38.7	53.9
Wholesale price index						
Total supply	29.3	29.4	36.6	39.3	37.5	55.9
Domestic availability	29.1	37.8	40.4	40.6	38.9	55.4
Consumer price index						
Rio de Janeiro	27.7	29.0	41.9	43.7	38.6	52.3
Construction costs						
Rio de Janeiro	29.5	25.1	44.2	51.0	37.9	49.3

Source: Getulio Vargas Foundation, Conjuntura Econômica, various numbers.

(a) The general price index is a weighted average of the wholesale price index (60%), the cost-of-living index for Rio de Janeiro (30%), and the cost of construction in that city (10%).

Table 17

BRAZIL: MONTHLY AND CUMULATIVE EVOLUTION OF PRICES, 1978  
(Percentage variation)

	General price index (domestic availability)		Wholesale price index (domestic availability)		Consumer price index (Rio de Janeiro)	
	Monthly variation	Variation over last 12 months	Monthly variation	Variation Over last 12 months	Monthly variation	Variation Over last 12 months
January	3.7	42.2	3.4	43.5	4.7	41.4
February	3.7	42.7	3.7	43.6	4.3	42.4
March	5.8	46.1	6.0	47.2	4.5	45.0
April	3.8	46.7	3.8	47.6	3.8	47.1
May	2.3	45.4	2.0	45.4	2.3	45.8
June	3.4	45.2	3.6	45.4	3.2	44.5
July	4.4	47.4	4.3	47.9	5.4	47.0
August	5.8	51.9	6.2	53.8	5.8	51.9
September	7.7	59.5	8.3	61.1	5.5	57.1
October	5.2	63.2	6.4	66.1	3.8	59.0
November	5.6	67.7	5.6	70.2	6.0	64.8
December	7.3	77.2	7.2	80.1	8.6	76.0

Source: Getulio Vargas Foundation, Conjuntura Econômica, various numbers.

Table 18

BRAZIL: PRIVATE SECTOR LIQUIDITY  
(Percentage variations between end-of-December balances)

Period	M1	M2	M3	(M3-M2)
1974	33.5	30.8	32.8	39.4
1975	42.8	44.6	47.4	54.1
1976	37.2	51.4	50.5	48.3
1977	37.5	45.8	48.8	55.6
1978	42.2	43.1	49.5	63.1
1979	73.7	56.4	58.7	62.9

Source: Getulio Vargas Foundation, Conjuntura Econômica, various numbers.

Note: M1 = Means of payment = Currency outside banks + sight deposits in the monetary system.

M2 = M1 + sight deposits in the public savings banks + National Treasury Bonds outside the monetary system.

M3 = M2 + 50% of time deposits, savings deposits, bills of exchange and real-estate bonds.

(M3 - M2) = Quasi-money.

Table 19

BRAZIL: INDEXES OF REAL MINIMUM WAGE(a)  
(Base: monthly average 1975 = 100)

	1975	1976	1977	1978	1979
April	83.5	85.8	83.6	88.3	84.7
May	115.7	116.7	116.5	120.7	120.4
Monthly average	100.0	101.1	101.4	103.6	101.7

Source: Central Bank of Brazil, Boletim, March 1980.

(a) Factor used: cost of living in Rio de Janeiro.

Table 20

BRAZIL: LOANS TO THE PRIVATE SECTOR  
(Percentage variations)

	1974	1975	1976	1977	1978	1979
Banco do Brasil	77.2	65.0	61.3	48.7	37.5	64.6
Commercial banks	47.5	51.0	50.3	52.4	57.0	71.2
Financial institutions	25.1	33.6	29.0	27.7	56.0	37.0
Investment banks	34.2	55.4	45.5	54.8	49.7	72.7
Real estate credit companies	60.5	40.3	68.4	61.2	49.6	60.1
Savings and loan associations	82.5	62.9	99.1	80.1	63.4	72.3
Federal Savings Bank	76.9	99.2	77.1	51.3	37.6	49.3
State savings banks	66.1	68.2	114.1	50.4	52.3	54.7
National Economic Development Bank (BNDE)	223.2	100.1	82.1	58.8	57.0	64.0
Total	55.5	56.3	57.9	51.1	49.4	64.2

Source: Central Bank of Brazil, Boletim.

Table 21

BRAZIL: NATIONAL TREASURY BALANCE SHEET  
(Billions of cruzeiros)

	1974	1975	1976	1977	1978	1979
Income	76.8	95.4	116.2	242.9	349.2	509.8
Expenditure	72.9	95.4	165.8	241.8	344.3	507.5
Surplus	3.9	-	0.4	1.1	4.9	2.3

Source: Banco Central do Brazil, Boletim.