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Brazil's debt: from the miracle to the fund

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TEXTO PARA DISCUSSÃO

Nº 80

"BRAZIL'S DEBT:
FROM THE MIRACLE TO THE FUND"

Edmar L. Bacha e Pedro S. Malan

1. INTRODUCTION

This paper provides an interpretation for the rise and fall of Brazilian foreign borrowing in the international credit market over the last fifteen years. It also presents an interim assessment of the prospects for the country under IMF conditionality.

The next section initially presents an overview of major trends in the world economy over the last fifteen/twenty years, with special reference to the re-emergence of private international credit markets, and the associated developing countries' very rapid accumulation of external debt. The reason for this introduction is that Brazil's rapid build-up of foreign debt was part and parcel of a wider world phenomenon which has to be kept in mind when analyzing a specific country experience. Next, we devote some time to a discussion of the main features of the changing domestic decision-making processes which presided over Brazil's foreign debt accumulation. Three major periods come distinctively to the fore: the years of the so-called economic-miracle of 1968-1973; the "adjustment" attempt of 1974-1978; and the critical 1979-1981 period during which sudden policy shifts were incapable of avoiding the foreign exchange collapse and debt renegotiation of late 1982.

The third section deals with more recent phenomena, especially the international and national implications of the near-closure of private international credit markets to Latin America since the second-half of 1982. As in section 2, we take a global perspective before discussing Brazil's present dilemmas and its costs.

Those costs are high indeed and promise to continue to be so under IMF conditionality. Hence, the opportunity to consider the debt question and the economic outlook for the country in the near future, in a book dedicated to the analysis of the prospects for democracy in Brazil.

2. RISE AND FALL OF LDC'S FOREIGN BORROWING: THE CASE OF BRAZIL, 1968-1981

This section first considers briefly the overall international economic scenario and then focus the Brazilian economy.

2.1 Global Scenario: an Overview

In fifteen years, from 1967 to 1982, the world saw the rise and fall of developing countries foreign borrowing in the private international credit market. The consequences of the near-collapse of the latter in 1982 will stretch for some years to come, appearing most visibly in the new roles and changing relationships between private banks, multilateral credit organizations, and the Central Banks of the major countries, now facing the well-known dilemmas of lenders of last resort.

It is reasonably clear that the present liquidity crisis cannot be solved in the realm of the private international credit system. Less clear, but perhaps more important, is the recognition of the fact that there is not a purely financial solution to the question of the external debt of non-OECD countries, which reached over \$800 billion by the end of 1983.

Skeptical observers may consider these recent developments and their still unfolding consequences as simply another manifestation of "history as usual". After all, it has happened before: for well-known reasons, between the early 1930s and the early 1960s there was a virtual cessation of private international financial flows. The European return to full current account foreign-exchange convertibility for non-residents and banks after 1959, the U.S. government regulations on national banking in the sixties, and the Soviet fears of holding dollar-denominated deposits in the U.S., led to the impressive flowering of the eurocurrency markets, through new and booming transnational banking activities.

The more advanced developing countries eagerly seized the new opportunities to borrow "with no strings attached", a flexibility which previously they did not enjoy under World Bank project loans or IMF stabilization programs, and much less under the bilateral government to government loans which marked the previous period.

As a result, the total external debt of non-oil developing countries grew from less than \$40 billion in 1967 to \$97 billion in 1973 to \$375 billion in 1980. The impressive rate of increase of 22% per year in nominal terms during the seventies is lower than the real rate of increase of 12% during the sixties, due to the small initial size of the debt.

Debt service flows increased at faster rates than debt itself, reflecting the shift to private borrowing at higher (market) interest rates and shorter maturities. This shift to private sources is one of the outstanding features of the period: in 1969, the first year for which comprehensive debt data are

available, 55% of the outstanding debt of developing countries was from official sources. The remainder was split between officially guaranteed supplier's credits and bank debt, the latter representing around 1/3 of the grand total. In 1973, private borrowing accounted for barely 50% of outstanding total debt, but by 1980 to nearly two-thirds of a total nearly four times as large in nominal terms.

There also occurred a significant concentration of debt, especially commercial bank borrowing, among a small group of developing countries. By mid-1982, only 10 countries, out of the total membership of 143 at the World Bank, accounted for more than half of the total LDC debt. This trend was sharply accentuated by the private bank's commercial recycling of OPEC's surpluses after the first oil shock.

The sudden, sharp rise in the price of an internationally traded commodity the demand for which was inelastic with respect to price created a global real disequilibrium which in practice required a combination of recession and inflation to be sorted out, plus years of structural adjustment.

Indeed, for the rest of the world, the only long term options for real adjustment were the reduction in oil imports, the increase in exports for OPEC, or the transfer of real assets to OPEC countries, through OPEC's direct investment in oil importing countries, most likely those with convertible currencies.

The international financial system added a degree of flexibility to this adjustment process. The creation of short-term financial assets in the financial centers of the world allowed for both the satisfaction of OPEC's

preference for liquidity and the extension of credit to deficit-ridden countries. This extension of credit, in turn, permitted either a postponement of the adjustment or its distribution over time.

It is worthwhile in this respect to quote from Cooper (1979, p. 325), who wrote the following passage before the second oil shock and the rise in international interest rates had taken place:

What happened was that a number of countries took conscious and, I think, rational decisions to ride out the recession. They choose not to experience it in 1974-75, but to borrow abroad instead, to maintain growth and domestic demand, and external debt rose accordingly. They took a gamble that I think was rational and that, indeed, was very helpful from the point of view of the world economy as a whole, because they helped to limit the extent of the downturn. But it is a gamble that they essentially lost. The recession was much sharper and much longer than was anticipated at the time, and now these countries face serious decisions as to how much to retrench and how to accomplish it..." (emphasis added).

Brazilian experience fits admirably well in this description, dramatically confirmed - and aggravated- by subsequent events. The remaining of this section, therefore, is an attempt to provide a brief overview of the main features of fifteen years of foreign borrowing, from the initial year of the so-called Brazilian economic miracle (1968) to the foreign exchange collapse of 1982.

We discuss separately three broad periods (a) the years of the "miracle": 1968 to 1973, (b) the "adjustment" to the first oil shock: 1974

to 1978, and (c) the critical 1979-1981 period. In these sections we attempt to place the Brazilian discussion in the evolving international context and to emphasize the nature of the domestic decision-making processes.

2.2 Brazil 1968-73: Recovery and Boom Under Foreign Exchange Illusion

The performance of the Brazilian economy from 1968 to 1973 was rather impressive when measured by conventional indicators: (a) an average annual rate of growth of GDP of over 11% in real terms, (b) an average rate of inflation of around 20% slightly declining over the period and partially neutralized by widespread indexing; and (c) overall surpluses in the balance of payments in every year from 1968 to 1973, with capital inflows running at rates over and above those required to finance Brazil's secular current account deficit, leading to a simultaneous accumulation of reserves (from \$199 million at year-end 1967 to \$6,417 million at the end of 1973) and gross foreign debt (from \$3,344 million in December 1967 to \$12,572 million at the end of 1973). See Table 1 for more details.

In many interpretations, an authoritarian and centralized régime and its imputed "rational and pragmatic" economic policies have been presented, both in Brazil and abroad, as the main elements behind these rather impressive achievements, in an attempt to use economic performance as the basic criteria for political legitimacy 1/.

1/ Examples of this line of argument are Syvrud (1974) and Campos and Simonsen (1974).

Table 1
Balance of Payments: Summary Accounts, 1973-1983
(US \$ Million)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 a/
Trade Balance	+7	-4 690	-3 540	-2 255	+97	-1 024	-2 717	-2 823	-1 202	+780	-6 470
Exports (FOB)	+6 199	+7 951	+8 670	+10 128	+12 120	+12 659	+15 244	-20 132	+23 293	+20 175	+21 899
Imports (FOB)	-6 192	-12 641	-12 210	-12 383	-12 023	-13 683	-17 961	-22 955	-22 091	-19 395	-15 429
Balance of Services	-1 722	-2 433	-3 162	-3 763	-4 134	-5 062	-7 057	-10 152	-13 135	-17 083	-12 748 b/
Non-factor Services	-965	1 533	-1 429	-1 574	-1 576	-1 805	-2 317	-3 120	-2 863	-3 588	-2 435
Factor Services	-757	-900	1 733	2 189	-2 558	-3 257	-4 740	-7 032	-10 272	-13 494	-10 313 b/
(Net Interest Costs)	(-514)	(-652)	(-1 498)	(-1 810)	(-2 104)	(-2 696)	(-4 104)	(-6 311)	(-9 161)	(-11 353)	(-9 555)
Current Account Deficit 1/	-1 715	-7 122	-6 700	-6 013	-4 037	-6 015	-10 478	-12 807	-11 734	-16 311	-6 171
Capital Account	+3 512	+6 254	+6 189	+6 651	+5 269	+10 916	+6 194	+9 679	+12 773	+7 851	+3 372
Direct Investment	+940	+887	+892	+962	+810	+1 071	+2 226	+1 532	+2 326	+2 547	+657 b/
Loans and Financing	+4 495	+6 961	+5 933	+7 761	+8 424	+13 811	+10 924	+10 596	+15 553	+12 515	
Amortizations	-1 672	-1 920	-2 172	-2 992	-4 060	-5 324	-6 356	-5 010	-6 242	-6 952	+2 715
Short Term Capital	-251	+326	+1 536	+920	+96	+1 358	-558	+2 561	+1 135	-259	
Overall Balance 2/	+2 179	-936	-950	+1 192	+630	+4 262	-3 218	-3 472	+625	-8 828	-3 330
Gross External Debt 3/	12 572 c/	17 166 c/	21 171 c/	25 988 c/	32 037 c/	53 600	61 300	68 400	80 000	89 100	97 000
Reserves 4/	6 417 d/	5 252 d/	4 041 d/	6 544 d/	7 256 d/	13 900	10 800	7 900	9 200	6 000	
Net External Debt	6 155	11 914	17 130	19 441	24 781	39 700	49 000	60 000	70 800	83 100	
Gross Domestic Product (US\$ billion)	96.3	125.7	145.5	165.4	184.3	207.5	240.8	283.8	304.6	327.4	330.5

a/ Preliminary estimates
b/ Excludes reinvestment
c/ Excludes short-term debt
d/ Excludes commercial banks

1/ Includes unrequited transfers
2/ Includes errors and omissions
3/ Includes authors' estimates for short-term debt after 1977
4/ Includes authors' estimates for commercial bank reserves after 1977

Sources: Central Bank Bulletins, Central Bank of Brazil (1984), and authors' estimates

Elsewhere, in Bonelli and Malan (1977) and Bacha (1977), we have argued that the "economic miracle" depended heavily upon some cyclical phenomena operating endogenously in the Brazilian economy and upon an exceptional and elusively temporary international situation. In our view, the simultaneity of a domestic upswing (after the stabilization crisis of 1964-67) and of very favourable international conditions with respect to trade and finance provide the basis for a clear understanding of the economic boom Brazil experienced from 1968 to 1973.

We will not go over the arguments and evidence in support of our interpretation of seven years ago. Our concern in this section is to put Brazil's rapid build-up of foreign debt in its proper perspective. For that endeavour, one must first recognize the outstanding historical singularity, for Brazil, of the 1968-73 period: it was the only period, in half a century of our history since 1930, when growth and capital accumulation were not foreign-exchange constrained.

In fact, during this six-year period, Brazil experienced growth with unlimited supplies of foreign credit at nearly negative real rates of interest. Using Fishlow's () characterization, foreign debt was an option, and it certainly allowed higher levels and rates of growth of investment without any significant pressure to reduce the growth rates of public and private consumption.

As long as Brazilian exports were growing faster than world trade, as indeed they were (an amazing 24,8% per year in dollar terms as against and

also amazing 18,3% per year for world exports), and much faster than the nominal international rates of interest, even a rate of growth of imports of nearly 27% per year as observed from 1967 to 1973 seemed bearable and implied a substantial real resource transfer to a country with an undoubtedly high absorption capacity.

Nevertheless, a "foreign exchange illusion", vividly described by Hirschman (1958, p. 167) developed in Brazil. The government apparently took for granted as a new formality what were in fact rather exceptional international developments in both trade and finance. After the domestic recovery of 1968 to 1970, when income grew faster than investment due to generalized excess capacity (associated with the previous boom of 1956-1961 and the stabilization crisis of 1963-67), both public and private investment plans were ambitiously designed as if Brazil had definitely solved its secular problem of foreign-exchange constrained growth. Either exports or debt or a combination of both seemed to allow for any going along a perfectly elastic supply of imports at given prices. An increase of nearly 150% in the capacity to import from 1967 to 1973 due to better terms of trade and export volume served to boost expectations.

The synchronized boom in the advanced economies in 1972-73 led to a commodity price explosion which helped to feed the worst inflation the integrated capitalist world economy had ever experienced. But up to 1974, the world economy was booming, Brazil was booming, debt was manageably accumulating and euphoria developing as never before. The collapse of the Bretton-Woods system of fixed parities and the acceleration of world inflation seemed events of minor importance for the Brazilian planners, at the time exclusively concerned with projecting past trends into future dreams.

The first oil shock in late 1973/early 1974 painfully showed that growing euphoria had its costs and that a given economic policy, pursued single-mindedly to its limits, would outlive its utility.

2.3 Debt-led Attempted Adjustment: 1974-1978

The Geisel administration, inaugurated in March 1974, had a perception of the need for structural adjustment. As in Cooper's quote, it choosed "rationally" to "ride out the recession and not to experience it in 1974-75 but to borrow abroad instead, to maintain growth and domestic demand". But the Geisel administration took more than a gamble. It decided to continue to pursue the projects which had been initiated in the previous years of growing euphoria and, additionally, to launch an ambitious program of import-substitution in capital goods and basic raw materials. The idea of the need to either increase net exports or transfer real assets was there as the only long-term solution to the real adjustment imposed by the oil shock. The growth of external debt was thought to be a temporary price to be paid for financing this adjustment over time.

Indeed, net medium and long term foreign debt rose fivefold from \$6,155 million in December 1973 (approximately equal to the value of exports in that year) to \$31,616 in December 1978 (two and a half times the value of exports).

With the exception of 1974 and 1975, when there was a loss in international reserves (of around \$950 million in each year) for the whole eleven-year period from 1968 to 1978), there was an overfinancing of Brazil's

current account deficit through the capital account. In 1978 alone gross capital flows were nearly \$11 billion, exceeding the current account deficit and thereby boosting the Central Bank held international reserves by more than \$4 billion. OPEC surplus had been reduced to virtually nil in that year, indicating an important fact, not well understood at the time: that the international private credit market was not dependent on OPEC surpluses to extend loans to developing countries.

However, for many optimistic observers, by 1977-78 the balance of payments adjustment in Brazil was nearly completed. The trade deficit of \$4,7 billion in 1974 had been eliminated in 1977. The current account deficit was reduced from \$7,1 billion in 1974 to \$4 billion in 1977. Imports, after rising slightly more than 100% in 1974 (to \$12,6 billion) were kept in dollar terms in the \$12 billion mark for the next three years. Exports rose from \$6,2 billion in 1973 to \$12,1 billion in 1977. Moreover, the economy was growing at an average annual rate equal to the historical (i.e. post-war) rate of around 7%, and inflation had stabilized at the 35-40% rate.

But could one say that adjustment "Brazilian-style" had been accomplished by 1977-78 and, were it not for the second oil shock and the U.S. "monetarist revolution" of 1979, that Brazil -together with other forty developing (and socialist countries- would not have reached the debt rescheduling stage in the years from 1980 to 1982?

It is hard to answer this counterfactual question even with the benefit of hindsight, but it is undeniable that the adjustment, as attempted, did increase the vulnerability of the Brazilian economy to further external shocks. Oil dependence was the most apparent one for a country importing more

than 80% of its consumption. Oil came to represent around one-third of total imports in 1976-78 (as against 10-11% over the 1968-73 period), despite a virtual stabilization of its nominal price around \$12 per barrel between 1974 and 1977 -a sharp fall in real terms due to world inflation and the rise in the price of Brazilian exports. Other imports fell accordingly. Capital goods went down from 41% of total imports in 1971-72 to 26% in 1977-78 and intermediate goods from 39% to 33%.

However, as serious as the real problem posed by oil dependency, was the increased vulnerability to upward changes in international interest rates which came to regulate nearly 70% of long and medium term gross Brazilian foreign debt of \$43,5 billion by the end of 1978 (of which \$29,5 billion consisted of currency loans). As a result, net interest payments came to represent, in 1977-78, nearly half of Brazil's current account deficit, as can be seen in Table 1.

Now this fact has an important implication, namely that the same current account deficit implies a much lower transfer of real resources from the rest of the world. In other words, the net contribution of foreign savings to Brazilian growth was steadily declining over the period.

In order to maintain the economy growing, this reduction in the contribution of foreign capital had to be matched by an increase in domestic savings expressed not in inconvertible cruzeiros but in foreign exchange terms, i.e., the adjustment required a sustained expansion of net exports.

This real adjustment could have been postponed or distributed over time but not avoided by building up foreign debt. In a mixed economy it would have required a substantial shift in relative prices - sustained and perceived as

such - to induce substitution not only in consumption, but in investment as well. This adjustment was very timidly running its course, together with its slowly working real effects (due to the higher capital ratios and long maturation periods of the big investment projects being simultaneously implemented) when a more vulnerable Brazilian economy suffered two near-fatal blows: the second oil shock which send oil prices from \$12 to \$30 per barrel from late 1978 to early 1980, and the sharp rise in international interest rates, which doubled in nominal terms from 1977 to 1979, and increased even further in 1980, under the impulse of a disastrous monetary and fiscal mix in U.S. economic policy. The game was clearly over. The next paragraphs attempt to explain why it took nearly three years, from 1979 to 1982 for Brazil to fully recognize it.

2.4 More External Shocks and Adjustment Through Recession: 1979-1981

The second oil shock led to an OPEC surplus in a two year period (1979-80) of nearly the same magnitude, in current dollar terms, as the surpluses observed in the 1974-78 period (around \$170 billion). The lower magnitude in real terms was more than compensated for by the higher share of oil consumption in world income, by the sharp rise in international interest rates, and by the difficulties involved in a second-round of recycling the OPEC surpluses, due to the increased vulnerability of the already highly indebted developing countries.

Brazil's trade deficit rose from \$1 billion in 1978 to \$2.7 billion in 1979, and to \$2.8 billion in 1980, despite an impressive growth of exports of more than 50 per cent in nominal terms, in the two year period 1979-80. But imports rose by more than 70 per cent, due to sharply deteriorating terms of

trade. Oil came to represent nearly 45 per cent of total imports in 1980. The apparently high level of the Central Bank reserves at year-end 1978 (\$11.8 billion) was sharply reduced by the overall balance of payments deficit: \$3.2 billion in 1979 and \$3.6 billion in 1980.

The level of gross international reserves started to lose meaning after 1979, with the growth of Brazil's then unrecorded short-term borrowing in international credit markets.

According to Nogueira-Batista, Jr. (1983), net reserves, defined as gross Central Bank reserves minus its short-term liabilities were, in June 1980, barely one-third of their level of December 1978. The net reserves/imports ratio declined from 71% in December 1978 to 15% in June 1980, and to 13% in September, when a major economic policy decision was taken: to adjust the economy through recession in order to revert the trade balance from deficit to surplus in 1981.

This decision represented a major shift in the previous policy orientation and requires a brief explanation. The Geisel administration was succeeded by Figueredo's Presidential term in March 1979. The strong man in economic affairs, Mario Simonsen, was preparing a slowing down of the economy in mid-1979 (as indicated by his never-published Third National Development Plan for the 1979-1985 period), when he was replaced in the position by Delfim Netto, until then Minister of Agriculture - and a critical voice within the government of Simonsen's planned slowing down of the economy.

Delfim Netto's version of the Third National Development Plan, as submitted ritualistically to the Brazilian Congress in September 1979

contained no figures whatsoever, but made a firm commitment to furthering economic growth. The Cabinet reshuffling was hailed by the entrepreneurial class who strongly supported the New Minister's growthmanship.

Indeed, the rate of growth of real GDP in 1979 was 6.8% and nearly 8% in 1980. A devaluation of 30% in December 1979 helped boost exports from \$15.2 billion in 1979 to \$20.1 billion in 1980. However, imports rose from \$18.0 billion in 1979 to \$23.0 billion in 1980, practically repeating the trade deficit of 1979. The current account deficit rose from US\$10.5 billion in 1979 to \$12.8 billion in 1980, half of it represented by the interest costs on net foreign debt.

Inflation, which was kept in the 35-40% range from 1974 to 1978, rose to 77% in 1979 and to an all-time high of 110% in 1980. By mid-year, the first hints of Brazil's need for rescheduling its foreign debt started to appear in public discussion - the suggestion of the need to IMF advice being voiced by cautious foreign bankers.

The reasons were, as so often in the past, the balance of payment crisis, the rather precarious net reserves position, and very specially, the erosion of credibility in the government's policy after the disastrous decision (as of January 1980) to predetermine the rates of devaluation (at 40 per cent) and monetary correction (at 45 per cent) for 1980, when all informed observers were expecting a rate of inflation of at least the same magnitude of 1979 (77 per cent), probably much more, due to the second oil shock, the December 1979 maxidevaluation, the acceleration of wage readjustments decided upon in late 1979, and the widespread use of backward looking indexing mechanisms.

The policy shift in the direction of a contractionary policy started in the second half of 1980 and was pursued along 1981. It resulted in a \$4 billion swing in the trade balance (from a deficit of \$2,8 billion to a surplus of \$1,2 billion), at the cost of the sharpest income drop in statistically documented Brazilian history: some 5% fall in real per capita income. Inflation was only moderately reduced from 110% in 1980 to 96% in 1981, basically due to a fall in both domestic agricultural prices (expressing the combined effect of a good harvest and falling-demand) and internationally traded agricultural commodities in world markets.

But the basic problem of the balance of payments remained unsolved. The current account deficit reached \$11.7 billion -of which \$9.2 were represented by interest costs on foreign debt, since the prime rate reached 18.8% on average in 1981 and the LIBOR averaged 15.5%. On top of that, Brazil was paying a spread of 2 1/8%. Registered external debt reached, officially, the value of \$61.4 billion. This figure refers to medium and long term debt. Unrecorded at the time, short-term debt can be estimated at \$18.6 billion. Therefore, Brazil's total debt at the end of 1981 was around \$80 billion, more than one-fourth of total GDP, and nearly three and a half times the value of 1981 exports (\$23.3 billion) of which two-thirds were required to pay for amortization and interest costs, which reached \$15.4 billion in 1981.

By the end of 1981, it was clear that the old indicators of debt-servicing capacity were losing their traditional meaning - in Brazil and everywhere. The world recession and stagnant world trade, the amazingly high levels of real interest rates, the associated fall in commodity prices and the

new protectionism in the advanced countries were transforming what were medium- term real adjustment problems in liquidity problems associated to the lack of convertible currencies and inability to pay contractual obligations, in several developing and Eastern European countries. In 1980 six countries had to renegotiate their debts in operations involving \$4.4 billion. In 1981, 14 countries initiated renegotiations with a value of \$10.8 billion. The debt issue had become a global question, involving not only finance, but also trade patterns and the state of the world economy. The next section deals with recession and financial distress in the world economy and Brazil's prospects under IMF's conditionality.

3. RECESSION AND FINANCIAL DISTRESS: BRAZIL'S PROSPECTS UNDER IMF CONDITIONALITY

The year of 1982 marks a major turning point in the financial history of the world economy, with consequences, for Brazil in particular, still unpredictable as of writing. The importance of the discontinuity in the second half of 1982 justifies that a section be devoted to an interpretation of this major event, and to its implications for developing countries in general and, in particular, to Brazil's troubled years ahead.

3.1. The World Economy in the Early Eighties: An Overview

Historical experience demonstrates that every major recession is accompanied by a major financial crisis. We had both in the early eighties. The world economy was in deep recession: the rate of growth of real GDP in OECD countries was, on average, less than 1 per cent in 1980-82 (as against 5.2 per cent from 1960 to 1973, and 2.7 per cent from 1974 to 1979). The average rate of growth of world trade was slightly more than 1 per cent in

real terms in 1980-82 (as against 8.6 per cent from 1960 to 1973, and 4.5 per cent from 1974 to 1979). The ratio of unemployment as a percentage of civilian labor force stood at more than 10 per cent, on average for the OECD (as against 3.1 per cent from 1960 to 1972, and 5.1 per cent from 1974 to 1979).

The real shocks associated with the second oil price rise in 1979 and the tightening in U.S. monetary policy after October of that year, led to an international propagation of recession which was aggravated by the U.S. indifference to the external consequences of its domestic economic policies. The very high degree of integration of world financial markets forced a general tightening of monetary policies in Western Europe and Japan. There followed a generalized rise in real interest rates, an associated fall in commodity prices (given the higher financial costs of retaining stocks), and three years of world recession and nearly stagnant world trade in 1980, 1981 and 1982.

International lending continued up to 1981, albeit at declining rates. In current dollars, commercial banks increased their exposure to developing countries in \$60 billion in 1978, \$ 55 billion in 1979, \$ 49 billion in 1980, and \$ 48 billion in 1981. The major change, however, was in the increasing importance of short-term debt: from December 1979 to December 1981, the stock of short-term debt of developing countries increased from \$68.1 billion to \$115 billion, whereas the stock of medium and long term debt rose from \$131.4 to \$175.2 billion.

The well-known herd-instinct of the banking community helps to explain not only this continuing extension of credit (at shorter maturities, higher spreads, higher profits and higher risks) but the contraction which slowly began in the second quarter of 1982 and rushed to a near-panic shortly after the Mexican collapse of August 1982.

What happened was not, as some Brazilian policy makers were quickly trying to point out, a temporary interruption in the international lending activities of commercial banks, while they were waiting to watch the water clear. On the contrary, the capital market rupture of the third quarter of 1982 should be considered as a major turning point in international banking history.

Confidence was badly shaken, and the market shrank. A crash in 1982 was averted only because of rescue packages quickly arranged by heavy players such as the U.S. Federal Reserve Board, the Bank for International Settlements and the International Monetary Fund, moving to fill the role of international lenders of last resort. In 1982 some two dozen countries initiated what promises to be a long and painful renegotiation of their foreign debts, involving some \$35 billion.

It is true that the major U.S. and European banks do not have much choice. After all, it is estimated that many of them have more than half of their assets in international markets and almost all have at least a third. As a respected business publication put it "They are locked into their international customers, like it or not and will be increasing their loans to troubled borrowers such as Mexico, Brazil, Chile and Argentina". [Dizard (1982, p. 6)]. But this is not true of all the estimated 1,100 to 1,300 banks involved in international lending. Estimates, obviously rather precarious, are that this number could be reduced by half by decisions not to send "good money after bad", and especially, not to lend in the interbank market to weak countries' banks disguised financing of their own countries' balance of payments deficits.

4.2 Brazil: The Crisis of 1982 and Debt Renegotiation

The events discussed in the previous subsection created for Brazil and several highly indebted developing countries a near-fatal combination: a simultaneous contraction of world trade and international credit. To countries outside the charmed circle of freely convertible national currencies, this combination usually generates - as in the 1930's - a rather serious liquidity crisis. Simply there is not enough cash in convertible currencies to meet immediate contractual obligations and import needs. Liquidity problems, as is known, can easily lead to insolvency and to the need to postpone payments and renegotiate the foreign debt, as indeed happened to Brazil by the end of 1982. This subsection attempts to show why.

In December 1981, the National Monetary Council published its projections for the foreign sector for the year 1982. Rather optimistically, exports were projected to grow from \$23.3 billion in 1981 to \$28 billion, imports from \$22.1 billion to \$25 billion. A trade surplus of \$3 billion would result, reducing the current account deficit to \$10 billion from nearly \$12 billion in 1981. Net capital inflows were projected to reach the same level as in 1981, leaving unchanged the level of official reserves, estimated at \$7.5 billion.

Brazilian exports, however, after increasing by 32% from December 1979 to December 1980, since then steadily declined every month, with its rate of growth measured on an annual basis. In December 1981, when projections were made it was 15.7%. In March 1982, 8.9%, in June 1982, 2.6% - and increasingly negative after that. The annual rate of growth in October 1982 was minus 9%

As a result, the \$28 billion exports target was progressively reduced first to \$ 26, then to \$ 25 billion by mid-year. In fact it was \$ 20.2 billion for the whole year. The second year of domestic recession plus stringent import controls reduced imports from the projected \$ 25 billion to \$ 19.4 billion, allowing a modest trade surplus of \$ 780 million.

But the bad news were not only related to trade. The amazingly high levels reached by international interest rates during 1981, especially in the third quarter, when the prime-rate reached 20.2% and the LIBOR 18,41% extracted their toll. Net interest payments, which had already increased by nearly a half in 1981 (to \$ 9,2 billion), increased further to \$ 11.4 billion in 1982, nearly 70 per cent of the current account deficit of \$ 16.3 billion, which represented a 5% of the estimated Brazilian GDP for 1982.

The extreme vulnerability of the Brazilian economy, which started to appear during the M a l v i n a s episode was dramatically signaled after the 90-day Mexican Moratorium declared on August 23rd, and the frustration which marked the Annual Meeting of the IMF/IBRD in Toronto, in early September, when the seriousness of the potential liquidity crisis was not clearly perceived. In fact, the advanced countries failed to take appropriate actions on a global scale such as a general increase in IMF's quotas or the creation of an emergency fund to deal with the troubled period ahead.

The private international credit market was much more than merely paralyzed as far as loans to most developing countries were concerned. It was not a temporary phenomenon, but a deep-rooted one. The market would not return to its pre-1982 pattern of lending. The contraction had been set in movement, fed by the financial markets' typical behaviour patterns of following the herd, in expansion and contraction.

The stage was set - and the need was clear - for the entrance of lenders of last resort. The rescue package designed to allow Mexico to go through its 90-day Moratorium was formed in less than 48 hours by the U.S. Government and the Federal Reserve, in an operation involving nearly \$ 4 billion.

Brazil would follow shortly after. Concerned with the November 15 elections, the Government, while recognizing that it would need the IMF and US Government aid, decided to cover this up from public discussion.

The decision was ill-conceived, for the situation was untenable. Brazil's gross foreign borrowing requirements for 1982 were estimated at well over \$ 20 billion. Even assuming a sharp fall in international reserves, it was increasingly clear that Brazil would not be able to borrow mainly from commercial banks the nearly \$ 1.4 billion a month required for the last quarter of 1982.

Additionally, the government was clearly overestimating the liquidity of its short-term assets. Included in the value of the government's reserves were financial assets which were becoming increasingly non-liquid, such as the debts to Brazil of other highly indebted developing and socialist countries.

At the same time, the short-term liabilities of the Brazilian Monetary Authorities were rapidly increasing. Brazilians had to wait for the first Technical Memorandum of Understanding with the IMF, an annex to the Letter of Intent sent to the Fund in January 6, 1983, to know that the Central Bank's ~~net reserve position as of September 31, 1982 was only \$ 1 billion, enough to~~ finance less than three weeks of imports.

Secret negotiations with the IMF and with the U.S. Government started in October. The Brazilian Government had to ask President Reagan to postpone his trip to Brazil until after the November 15 elections, to avoid undue political interpretations. When he finally arrived in Brasilia, President Reagan was happy - as he declared - "to come to Bolivia" and announced U.S. support for the country's financial problems. In fact, aid had come earlier in the form of a \$1.4 billion "bridge loan" from the U.S. Treasury, of U.S. support for another \$500 million "bridge loan" from the BIS, of U.S. Treasury Officials cajolling commercial banks to arrange another \$2.3 billion "bridge loan", and of U.S. support for a Brazilian mid-term loan arrangement with the IMF.

The Brazilian Government, partly for reasons of domestic consumption (to show that it was taking the initiative to propose a voluntary adjustment to the balance of payments constraint as envisaged for the rest of 1982 and 1983) and partly for foreign consumption (an attempt to differentiate the Brazilian case from Mexico's and Argentina's by showing its commitment to austerity and rationality) approved the balance of payments projections for 1983 as early as October 25.

Published the same day, the projections for 1983 caused great perplexity - and well-founded fears of another year of recession and financial distress.

Indeed, for the first time in Brazilian foreign sector programming, the starting point was a somewhat magical and curiously precise number: \$10.6 billion. This figure was stated in October as the maximum amount that Brazil would be able to borrow in international capital markets during 1983.

~~Subtracting \$7.2 billion of amortization and adding \$3.5 billion of direct investment and suppliers' credits one would reach the figure of U.S. \$6.9 billion for net capital inflows. The government assumed that this would be~~

the required current account deficit (since there were no reserves to lose).

As the deficit on services was projected at \$ 12.9 billion, the trade surplus which came out as a residual was supposed to be as high as \$ 6 billion.

Moreover, most of this surplus would have to come from a curtailment of imports - of 15% to 20% - since exports were supposed to reach a maximum of \$ 22,5 billion (a 10% increase in nominal terms). The projected fall in imports from 1980 (when they reached \$ 23 billion) to 1983 (a projected \$ 16,5 billion) was equivalent to 50% in real terms.

These projections formed the basis for the renegotiation with the IMF and for the wild persuasion efforts involving the commercial banks, and were advertised as manifestations of how serious the Brazilian government was in its commitment to reduce the current account deficit from 5% of GNP in 1982 to slightly more than 2% in 1983. As expected, the IMF Mission required other measures, especially a 50% cut in the public sector borrowing requirements as a proportion of GDP, and the usual strict targets for the expansion of domestic credit.

As soon as an agreement was reached with the IMF, by mid-December, the Brazilian authorities arranged for a meeting in New York with representatives of the 125 major banks involved with Brazil's debt. There, on 20 December, Mr. de Larosière opening statement supported Brazil's request and announced the preliminary agreement of the IMF with the programmed adjustment for 1983. The bankers were introduced to the four Brazilian projects:

(1) New loans of \$ 4.4 billion for 1983, a figure which represented ~~about 7% increase in exposure for the average bank creditor;~~

(2) Renewal during 1983 of maturing medium term loans of approximately \$

(3) Keeping open existing trade related credits estimated in \$ 8.8 billion;

(4) Commitment to the interbank credit lines to Brazilian banks operating internationally at the figures outstanding on June 30, 1982, an estimated \$ 10 billion.

The IMF hinted, as in the Mexican case, that bank approval of the four-point Brazilian request was a pre-condition for Fund approval of a \$ 4.8 billion, three-year program for Brazil. The bankers balked at the Brazilian request for a prompt reply, i.e., before December 31, 1982, a few working days later.

As predicted, time was rather short for such complex negotiation. On December 30, anticipating bank approval of project 2 above, Brazil declared that it would not pay the amortizations due in 1983 as they came to maturity.

This was considered an implicit moratorium, a recognition that the four projects were in fact a renegotiation of Brazil's debt and - as declared by the Director for the Foreign Area of the Brazilian Central Bank - a threat to the Banks: either the agreement would be reached before the new deadline - established tentatively as March 1 - or Brazil would be forced to formally declare a moratorium on its foreign debt.

An agreement was eventually reached, and the four projects were solemnly ~~signed in New York on February 28. But this was hardly the end of the story.~~ For, contrary to the overly optimistic assessment of the Brazilian authorities and their banker advisers, the "voluntary" lending levels contemplated in

Projects Nos. 3 and 4 simply did not materialize. International banks in fact continued to withdraw their credit lines from both Brazilian trade and Brazilian banks abroad. Lacking international reserves to cover the corresponding cash shortfalls, Brazil's Central Bank started to get increasingly into arrears in its foreign payments.

Moreover, in its first quarterly review of the Brazil loan, the IMF staff found that both the budget deficit and domestic credit creation were much higher than promised by the Brazilian government in its two initial Letters of Intent (dated January 6 and February 24). Hence, the decision was made to suspend disbursement of the second installment of the IMF loan to the country (which was due May 31), pending a revision of the adjustment program. In the terms of the agreement with the banks, this automatically also suspended further disbursements of the loans agreed under Project No. 1. There followed a six-month period of tense negotiations, while a compromise worked itself out. On the Brazilian side, politically the most spectacular consequence was the passage by Congress of a new wage law, by which average wages' growth was reduced from some 100 per cent to about 86 per cent of the inflation rate in the past six months. The banks eventually agreed to an additional \$ 6.5 billion loan, to cover the financing needs of both 1983 and 1984, while postponing for the future all debts maturing in 1984, and strengthening the centralized controls over the compliance of more modestly planned levels for Projects nos.3 and 4. Lower private commitments under Project no. 3 were compensated for by additional export credits from the Eximbanks of the U.S. and other Western governments. A Paris Club meeting was also held, in which an understanding was reached for the rescheduling of Brazil's official debt. The whole package was conditioned on the Fund's approval of the Letter of Intent

of September 15, as amended in November 14. This was finally obtained in late November. Then, a massive bookkeeping operation could take place, with new credits being disbursed and arrears cleared, for the satisfaction of the financial world, which now could turn its attention to the upcoming negotiations with Alfonsin's Argentina.

Meanwhile, the consequences of the austerity measures were being hard felt by Brazilians. GDP per capita fell by an additional 5.7 per cent in 1983, total industrial output by 7.0 per cent, and capital goods production by 20 per cent. Droughts in the Northeast and floods in the South, a 30 per cent maxidevaluation in February, the elimination of food and energy subsidies, and some "corrective inflation" in public utilities prices send the wholesale price index skyrocketing to 211 per cent per year in December 1983.

The good news were in the financial side and in the external accounts. In December, the Fund staff unsurprisingly found that the Brazilian government had met the ceilings for credit expansion and the budget deficit which were set one-month before. Furthermore, the Fund board tried to minimize the possibility of future problems arising in its quarterly reviews of the program, by instructing its staff, first, to set the performance criteria on a pay-as-you-go-basis, and, second, to add to its own preferred measures of the budget deficit and domestic credit expansion, those favored by the Brazilian government.

On the external front, a spectacular 43 per cent reduction of capital goods imports was the single most important factor behind a trade surplus even higher than the \$6 billion initially forecasted, in spite of a weaker than predicted export showing. The services account also did better than

predicted. As a consequence, the country succeeded in impressively reducing its current account deficit from \$14.8 billion in 1982 to \$6.2 billion in 1983.

3.3 Prospects for 1984 and beyond

In March 1984, the Brazilian government disclosed the second volume of its Economic Program (Central Bank of Brazil, 1984), with its plans for the remaining of the year. Domestically, the major objectives are the attainment of a small operational surplus in the public sector accounts and the reduction of money supply expansion to 50 per cent on a yearly basis. The main purpose is "to permit a drop of as much as one-half [in the rate of inflation] during 1984" (Central Bank of Brazil, 1984, p. 4). Externally, the objective is to obtain a trade surplus of \$9.1 billion (as compared with \$6.5 billion in 1983) and a current account deficit of \$5.3 billion (which compares with a deficit of \$6.2 billion in 1983). This should be consistent, according to the government, with a positive change in gross international reserves of \$4.4 billion during the year.

The government expects that these targets will also be consistent with no additional negative changes in the country's GDP. However, even if it succeeded in halving the rate of inflation, which it will not, observance of the monetary target would imply a drop of the money supply of as much as 27 per cent during the year. It is unlikely that the economy can withstand such drop in real money without a further decline in real activity (especially when measures are concurrently being taken to reduce the liquidity of government bills and bonds, which have traditionally function as good money substitutes

in the country). Thus, what can be said in mid-1984 is that either the monetary targets are not met or else there is no end in sight to the longest and deepest recession in recorded Brazilian economic history.

If total GDP remains flat in 1984, the standard of living achieved by the average Brazilian this year will be about 17.4 per cent lower than in 1980. This figure is obtained by adding, to an observed 14.1 per cent drop in GDP per capita, the additional losses to real national income deriving from lower terms of trade and increased factor payments to abroad. This means that the growth rate of GDP in the 1985-89 period will have to average 6.5 per year simply to recover by the end of the decade the per capita living standards of 1980 1/.

1/ The population growth rate implicit in these values is probably slightly overestimated at 2.5 per cent a year for the remaining of the decade. This overestimation is compensated by the fact that growth of living standards is being identified with GDP per capita growth in a situation in which per capita consumption growth should be less than that for per capita GDP both because of increased investment and lower current account deficits.

Under IMF conditionality, the country is unlike to meet even this modest target. For the adjustment program in its longer term aspects is designed to generate a trade balance surplus large enough to permit an early retirement of Brazil's foreign debt. More specifically, the country is expected not only to shrink its current account deficit, but to generate an increasing current account surplus, starting as early as 1987. The IMF belief that this is

consistent with the maintenance of a meager 4 per cent real GDP growth rate after 1984 hinges on its optimistic presumption that real international interest rates will fall significantly in the coming years. However, if these interest rates do not come down, a different picture emerges. With export prospects in the range of prediction of the IMF itself (i.e., a 5 % real growth rate per year), a simple projections model indicates that Brazil's average GDP growth rate will not surpass the 1.8 % mark in the 1985-89 period. 1/ This means that real per capita GNP in 1989 would be 22.3 % lower than in 1980.

1/ For details, see Bacha (1984).

Babel could not be avoided under such scenario, hence, policy alternatives will need to be considered, especially when the root of the problem is so apparent. Brazil simply cannot commit itself to generating current account surpluses, if its exports prospects are reduced to a 5 % a year expansion in real terms. Notice that this growth rate of exports matches the expected expansion of world trade, if OECD growth rates are maintained in the range of 3 - 3.5% a year. Thus, Brazil would have to increase continuously its share in world trade (an even more so in the domestic absorption of the OECD countries), if its exports grow by more than 5 % a year.

~~However, in order to guarantee a 6.5% average GDP growth rate, Bacha~~
(1984) calculations indicate that Brazilian exports would need to expand

at an average of 10 per cent a year in real terms. And this would need to be achieved with no additional reduction in Brazil's terms of trade, for what is at stake is not volume but the purchasing power of exports. It seems to be a nearly impossible mission, given the continued strength of protectionism measures in the world trading system.

Additional import substitution might provide some respite, but not much. For currently, non-oil imports are being rigidly compressed by very stiff quantitative controls, and these will need to be relaxed as the economy starts growing. Thus, energy substitution should at most provide the room necessary for the required decompression of non-oil imports in the rest of the decade.

Under these circumstances, the fiction needs to be dissipated that the debt will be repaid in the near future. In fact, an effective consolidation of the external debt seems to be imperative, as a step towards resumption of GDP growth in Brazil. Proposals for such debt consolidation have been spelled out elsewhere by several authors and, therefore, need not detain us here. However, debt consolidation would simply ensure that the nominal value of the debt remains constant, and this is still not enough. To ensure achievement of the 6.5 per cent GDP growth rate, with exports growing at 7 per cent a year in real terms, Bacha (1984) estimates that the value of the debt should be maintained constant in real terms. That is, the nominal value of the debt would need to grow at 5 per cent a year, which is the expected dollar of inflation. This growth rate of the debt could be automatically achieved by the capitalization of about one-half of the interest bill in the next five years.

Such are some of the basic balance of payments projections that need to underlie a renegotiation of the terms under which past debt was contracted and

the program with the IMF was set up. In order to avoid Babel, certainly a more determined negotiating posture will be necessary on the part of those responsible for economic policy making in Brazil after March 1985.

4. SUMMARY AND CONCLUSIONS

This essay presented a general outline of the controversial processes through which the Brazilian economy arrived at its present awesome situation. We adopted this historical perspective not so much to provide another interpretation of an irrevocable past, but to draw lessons for the future of a hopefully democratized Brazil.

From the drama in three acts played between 1968 and 1982, it is possible to extract several lessons. From the first act, from 1968 to 1973, we learn that growth euphoria has its costs, the most serious of which is the illusion that the secular constraint imposed by the balance of payments on the Brazilian economy had become a thing of the past; and that Brazilians were destined to reproduce in the tropics the consumption patterns characteristic of industrial societies. It is true that the first oil shock was unforeseeable, but the fact that the pre-1974 growth and distribution process could not be maintained for the rest of the decade was noted by various observers from the beginning of the 1970s.

From the second act, 1974 to 1978, it is possible to extract the lesson that a decision to avoid recession, as an abrupt adjustment device to deal with new adverse relative prices and international conditions, was essentially correct. But it erred in not perceiving the need for much greater selectivity

in investment choice and resource allocation. Adjustment through borrowing rendered the Brazilian economy excessively vulnerable to additional external shocks. Again, it was difficult to foresee the second oil crisis and the interest rate shock which marked the close of this act in 1979. But it was possible to observe the increased vulnerability of the Brazilian economy to international conditions, as a consequence of a debt contracted at floating rates, without which achievement of the rates of investment of the 1974-76 period would have required a much more significant export promotion effort associated with a contraction of domestic consumption spending.

From the third act, from 1979 to 1982, it is possible to confirm the general lesson that history repeats itself only as its own parody. From the policy errors of the period, the more specific lesson remains that short-term economic policy cannot be managed without a strategic vision and an adequate examination of international conditions. Between March and August 1979, one identifies "a prudent planner's" (apud Diaz-Alejandro, 1983) attempt at readjusting the economy through growth deceleration. This was abandoned in favor of a contradictory expansionist policy, which led nowhere but to its own extinction at the end of 1980. There began the current contractionary phase, which initially led to the recession of 1981. It was a recession produced to attempt restoring the policy makers' credibility with the international financial community, and to avoid having to turn to the IMF. The recession was rendered useless by the disarticulation of the international private credit market in September 1982. Brazil was then obliged to turn to the Fund and to renegotiate its debts with the banks.

This renegotiation was marked by four mistakes of analysis. The first was the expectation that international credit markets would quickly return to

normal, and resources would start again flowing to Brazil as soon as the accord was signed with the IMF. The second consisted in the undue haste to arrive at such an accord in the belief that it would not be enforced, and that there would be a political decision on the part of the IMF not to demand the fulfillment of the performance goals originally agree upon. The third, related to the first two, consisted in underestimating the amount of new resources that Brazil would need in 1983. The fourth was that the Brazilian debt could be dealt with in terms of a gregorian calendar: once the year of 1982 was "closed", then the financial necessities of 1983 could be discussed, and so on into the future.

The lesson of this period is that the arduous process of renegotiation requires, necessarily, taking into account a longer term horizon, a more realistic evaluation of the need for new resources, a viable and definite agreement with the IMF and the banks. This agreement must condition the transfer of real resources to the rest of the world (via trade surpluses) to new capital inflows, to international interest rates and to the performance of Brazilian exports.

It is necessary, desirable and possible to avoid a confrontation, but it is a mistake not to assess the economic and political costs of punctuality in the payment of contractual obligations associated with the external debt. Any solution will have to be negotiated with the IMF, with the banks and governments, and especially with the U.S. Administration, but the payment of the debt cannot overly compromise the future growth of the Brazilian economy.

This work is critical of the current austerity policy that takes domestic recession as the only solution, until something positive happens in the

international arena. It is true, in any case, that as long as the question of Brazil's cash flow in convertible currency is not taken satisfactorily into account through a more comprehensive renegotiation, the space for maneuver in economic policy --whoever is conducting it-- will be extremely reduced.

As mentioned in the introduction, the internal distribution of the burden of the inevitable domestic adjustment now taking place is an essentially political-economy process, which justifies serious discussion of an apparently technical problem, such as Brazil's foreign indebtedness, in a book dedicated to the broader issue of the prospects for democracy in a country with a long mix of authoritarian and (apud Lamounier) liberal traditions.

While keeping in mind the importance of the debate on the distribution of the costs of the current "phase of adjustment", this essay insists on the imperative necessity of resolving the problem of the balance of payments as the condition sine qua non for overcoming the present difficulties.

Leaving aside the limited possibilities of expanding bilateral trade through special payment agreements, there are five possibilities (not mutually exclusive) for confronting a situation like the present one in Brazil's external accounts.

Two of them have to do with the central uses of convertible currencies: imports and debt servicing. Three have to do with the principal sources of convertible currency: exports, net loans, and direct investment. The reduction of imports caused by the recession will last only as long as the recession itself. Those who want to recall the experience of the 1930s - when the difficulties in the balance of payments stimulated domestic industry to

substitute imports - should keep in mind that a drop in non-oil imports of over 50 per cent in real terms has already occurred between 1980 and 1983. It would be very difficult to imagine this giving a stimulus to domestic industry, in the absence of war-like economic conditions.

As for exports, under current conditions the only alternative is indeed to promote them as hard as possible, bearing in mind the domestic effects of such actions, and the necessity of longer term support policies. But as we have argued in the last section, it is unrealistic to think that exports alone could re-establish a sensible GDP growth rate for Brazil in the coming years. In terms of new loans, it is now well-known that the collapse of the international private credit market makes it difficult to count on access to this source of funds without special negotiations. The third source, direct investment, could take the form of new undertakings or of simple transfers to residents abroad of real assets already existing in the country. The prospective volume of such resources is limited relative to the magnitude of the problem the country faces.

What is left? Only a renegotiation of the terms under which past debt was contracted and a rediscussion of the programs agreed so far with the IMF and the banks. Certainly a more determined posture will be necessary, in the next inevitable rounds of negotiations, on the part of those responsible for economic policy making in Brazil.

The present situation, reflected in the provisional joint agreements with the IMF and banks, involves, explicitly and implicitly, an unduly harsh adjustment, questionable from an economic perspective and untenable from a political point of view. Hard choices lay ahead. Other contributions to this book will draw the political implications of these choices, and relate them to the prospects for the democratization of Brazil.

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