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DEPARTMENT OF STATE

AIRGRAM

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TO : DEPARTMENT OF STATE

INFO : Brasília, Belém, Recife, Salvador, Belo Horizonte, São Paulo, Curitiba, Pôrto Alegre

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FROM : AmEmbassy, RIO DE JANEIRO DATE: August 9, 1965

SUBJECT : Brazilian Federal Intermediate Credit Agencies Operating in Field of Industrial and Agricultural Development.

REF : CERP - Section D

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1. Introduction

One of the obstacles to economic development which has resulted from inflation in Brazil has been the near elimination of commercial sources of credit for financing capital investment. By limiting interest rates to 12 percent per year, the usury law of Brazil, within the context of rates of inflation reaching a high of 86 percent in 1964, has largely restricted private credit operations to types which, by facilitating circumvention of the law, can provide an adequate return to the lender. Thus, commercial banks offer short term (up to 120 days) supplier's and retailer's credit at a cost to the borrower ranging, in the recent past, from 3 to 4 percent per month (within which the major element is a commission charge). Somewhat longer (180 day normal maximum) term credit of the working capital variety is provided through financial intermediaries which market so-called "letras de câmbio" (a form of promissory note) at costs to the borrower which, in the recent past, have ranged in excess of 100 percent if projected on an annual basis (here the usury law is circumvented by calling the interest cost to the borrower a "discount" or "agio").1/ A third

1/ Costs of both commercial bank and "letra de câmbio" credit have declined steadily since the beginning of the year. The upper limits of the ranges mentioned herein have, as of the present date, been reduced to around 3 percent per month in the case of commercial bank credit and to around 60 percent per year in the case of "letras de câmbio".

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Drafted by: ECON/RPHipskind:ts

Contents and Classification Approved by: Ralph V. Korp

Clearances:

form of commercial credit has been generated through the direct and illegal ("parallel") marketing of promissory notes by private enterprises at higher costs than those of "letra de câmbio" financing.

Various official agencies have partially filled the medium and long term commercial credit vacuum. The purpose of this airgram is to provide an outline covering the operations of the so-called intermediate federal credit agencies which are engaged in repassing financial resources for purposes of agricultural and industrial development. Two such agencies, the Bank of Brazil's Agricultural and Industrial Credit Department (CREAI) and the National Development Bank have been in existence for some time. BNDE has repassed resources of both local (compulsory loan) and foreign (P.L. 480 counterpart) origin. CREAI has repassed funds of foreign origin (program loan counterpart) and has, like the General Credit Department of the BOB, also made applications from both inflationary and non-inflationary resources generated by Brazil's monetary authorities. Since midway in 1964, however, a number of additional intermediate credit agencies have been brought into being which, until now, have been funded exclusively from resources originating with USAID and the IDB. These agencies include:

FUNDECE - (Fund for the Democratization of Enterprise Capital),

FINAME - (Fund for Financing the Acquisition of Industrial Machinery and Equipment),

FIPEME - (Fund for Financing Small and Medium Sized Industry),

CNCR - (Rural Credit Coordinating Commission),

FINEP - (Projects and Programs Studies Financing Fund).

Although the credit provided by the intermediate agencies is "easy" in the sense that terms are longer and costs lower than any credit commercially available, these agencies have, on the whole, attempted, through commissions and loan service charges, to equate total charges to the borrower with the cost of lending. In fact, since Nov. 6, 1964, Law 4,457 (see Embassy's A-531 of Dec. 4, 1964) has authorized the relending of resources of foreign origin to be subject to monetary correction in accordance with the National Economic Council's quarterly cruzeiro purchasing power coefficients. Now, one of the intermediate credit agencies applies full monetary correction to the re-lending of such sources. Most others apply partial correction (i.e., limited to a maximum of, say, 20 percent per year). FN 6 BRAZ

This report does not cover the many regional and state development financing agencies which are just becoming a significant factor in