

OPERATIONS MEMORANDUM

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TO: American Embassy, RIO DE JANEIRO

DATE: December 9, 1964

INFO: AmCongens, Recife & São Paulo; USAID/Recife

FROM: American Consulate, SALVADOR

File

SUBJECT: ECONOMIC REPORTING: Monthly Economic Review for November 1964

REF: (Note to typist: Send "blind" copy to First Natl City Bank of New York, Salvador)

I. SUMMARY

Bank credit continued to tighten during the month and brought cries from employers for Bank of Brazil assistance in financing the thirteenth month. Despite this and the fact that the cocoa crisis remains unsolved, the general level of business activity continued satisfactory. A government removal of the 5% retention tax on sales of cocoa products has not yet led to resumed buying on the part of processors. The cocoa main crop is now put at 800,000 bags. The State announced a 1965 budget with deficit of CR\$18 billion, or 17% of total expenditure.

II. BUSINESS AND INDUSTRY

The major preoccupation of the month, and increasing toward the end of it, was the tightening credit situation. In Bahia the effects of the 5% capital reevaluation tax have been aggravated by the continued withdrawal of Brazil from the world cocoa market, and by the fact that banks with branches in the south have been drawn down as far as possible to ease the credit situation in that part of the country. There have been numerous cries from employers for someone to provide financing for the thirteenth month, and talk of trying to get such assistance from the Bank of the Northeast or Bahia's Development Bank (BANFEB) if the Bank of Brazil continues to refuse. The President of the Bahia Federation of Industries takes a more measured tone, arguing that businessmen should reduce their speculative credit outstanding and, in general, attempt to cooperate more fully with the government's anti-inflationary program.

Despite the credit situation sales held up well and many stores reported small sales volume increases over the month of October. The price increase in gasoline and the subsequent 100% increase in most public transportation fares were the major items on the price front. Newspapers charged that the cost of living had risen 100% in Salvador since the first of the year. Official statistics place the increase at 59%, but these are of doubtful reliability. The official increase in November was 5.8%, the highest for any month since April.

The industrial picture was marked by the announcements that factories to build tractor parts and to produce oxygen would be built in Salvador in the near future. Argentine capital will assist in the construction of a plant producing ferre-alloys for steel mills (see our OM of 11/24/64).

Cocoa products factories have not resumed crushing cocoa beans on a large scale, despite the government's lifting of the 5% retention tax on 200,000 bags (see Foreign Trade).

The classes produtoras sent a petition to President Castelo Branco requesting CR\$5 billion to assist the City of Salvador. To date there has been no public response.

Economic Summary
December 1964

III. STATE FINANCES

The 1965 state budget foresees revenue at CR\$87.4 billion and expenditure at CR\$105.5 billion. The comparable budget figures for 1964 were 42.9 and 46.6 billion cruzeiros respectively. Actual 1964 revenue will be higher and budget programmers have used a 40% inflationary-increase factor (over 1964) in estimating revenue for next year. Political pressure from the state employees played an important role in inducing the government to retain the legal relationship between the national minimum wage and state wage levels. The Secretary for Development had proposed a scheme that would have provided pay raises in keeping with increases in the state's ability to pay them. Reportedly the state will now attempt to keep salary payments within 73% of the total budget. The old statutory limit was 60%. In fact, during 1964 salary payments have taken over 90% of revenue. The state is about to pass a law providing for the monetary correction of debts owed to the state. Supposedly this will help to combat the present tendency to let tax debts ride indefinitely.

IV. FOREIGN TRADE

in Africa

The major cocoa producing nations met on November 27 and decided to continue their ban on sales of cocoa and cocoa products. The FOB Ilheus price, which had fallen as low as 18.5 cents per pound in October climbed over 20 cents per pound by the end of November. The government agreed to eliminate the 5% retention tax on cocoa products, for 200,000 bags, but it has not yet announced a definite plan for financing cocoa purchases by processors. Without attractive financing, as long as export sales are banned, processors are not going to purchase the cocoa accumulating on the hands of growers. Reportedly cocoa being stored in Ilheus, in expectation of resumed sales, shows damage in as much as 30% of the beans.

As appears to be true elsewhere in the country the demand for foreign exchange is weak in Bahia at present. The principal explanation given is that with money tight import requirements are being reduced or postponed.

V. AGRICULTURE

The best available estimates of the main cocoa crop now stand at about 800,000 bags (down from 900,000 bag estimate of last month). That the crop has turned out disappointingly small despite good rainfall is attributed to heavy insect infestation and the necessity for a recovery period after the

OPERATIONS MEMORANDUM

prolonged drought of the last few years. If the above prediction is valid Bahia's total production for the April 1964-April 1965 period will be slightly under 2,000,000 bags (120,000 metric tons).

The Governor of Bahia has extended the period of intervention of the Bahia Cocoa Institute for an additional 15 days. Presumably by the beginning of next year it will return to normal administrative status.

Tobacco crop estimates continue at about 350,000 fardos of 75 kilos each.

VI. MINERALS

Newspapers report that fifteen wells have been completed in the Carmopolis field in Sergipe. The average depth is 750-800 meters. Average production potential per well is estimated at 150 barrels per day. At least 200 wells will be drilled in the Carmopolis field.

VII. POWER

The Hydro-Electric Company of the São Francisco (CHESF) sent its 1965 budget request to Electrobras. Of the CR\$30 billion total, CR\$4 billion is for the construction of the second line linking Salvador to Paulo Afonso. Completion is scheduled for the end of 1965. The line, 383 kilometers long, will carry 230,000 volts. Much of the material and equipment has already been purchased.

The major preoccupation of the north, and increasingly toward the end of 1964, was the tightening credit situation. In Bahia the effects of the 5% capital revaluation tax have been aggravated by the continued withdrawal of credit from the world cocoa market, and by the fact that banks with branches in the north have been driven down as far as possible to save the credit situation in that part of the country. There have been serious crises from companies for example to provide financing for the Bahia state north, and talk of trying to get some assistance from the Bank of the South of Bahia's Development Bank (BANDS) if the Bank of Brazil continues to refuse. The Director of the Bahia Federation of Industries (FIEB) has a more measured tone, saying that businessmen should reduce their speculative credit outstanding and, in general, attempt to cooperate more fully with the government's anti-inflationary program.

Despite the credit situation which held up well, and very serious reported world cocoa price increases over the month of October. The price increase in November and the subsequent 100% increase in world cocoa consumption have been the major items on the public front. Newspapers charged that the cost of living had risen 100% in Salvador since the first of the year. Official statistics place the increase at 7%, but these are of doubtful reliability. The official increase in November was 5.2%, the highest for any month since April.

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The industrial picture was marked by the announcements that factories to build tractor parts and to produce oxygen would be built in Salvador in the near future. Significant capital will be needed in the construction of a plant producing three-shifts for sugar mills (see our CR of 11/24/64).