



Brazil: short-term response to higher food prices

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GLOBAL FORUM ON AGRICULTURE

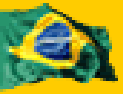
ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

29-30 June 2009



Plan of Presentation

- 1. Brazil 2008: better conditions to tackle crises**
- 2. Brazil's response: 3 moments and one special feature**
- 3. A few results: decrease of inflation, no agro-food inflation**
- 4. Agenda for the future: more family farming and food security**



1. Brazil 2008: better conditions to tackle crises

Brazil was better prepared, thanks to:

The economy's dynamism

Lower external vulnerability

Internal mass market

Social protection network

Possibility of rapid expansion in the internal food production: set of rural development policies

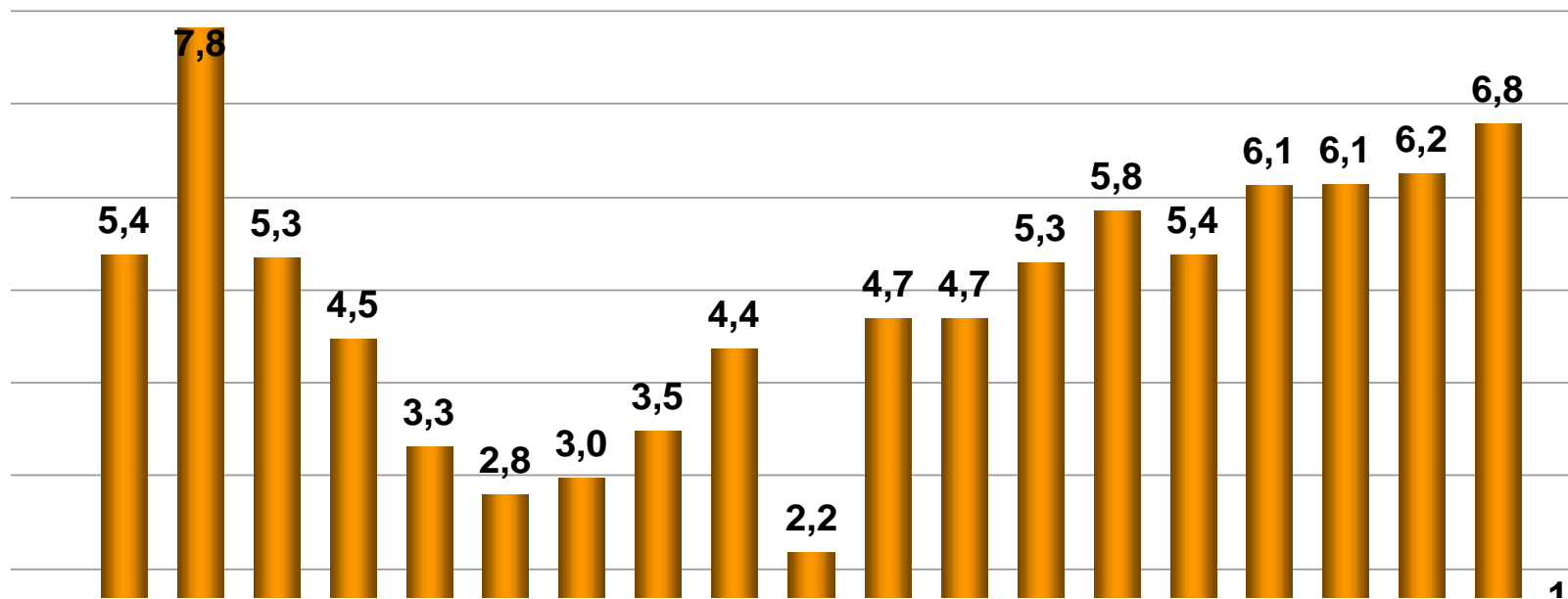


1. Brazil 2008: better conditions to tackle crises

1.1 The economy's dynamism

The GDP's sustainable growth

Quarterly variation in relation to the same quarter of the previous year - %



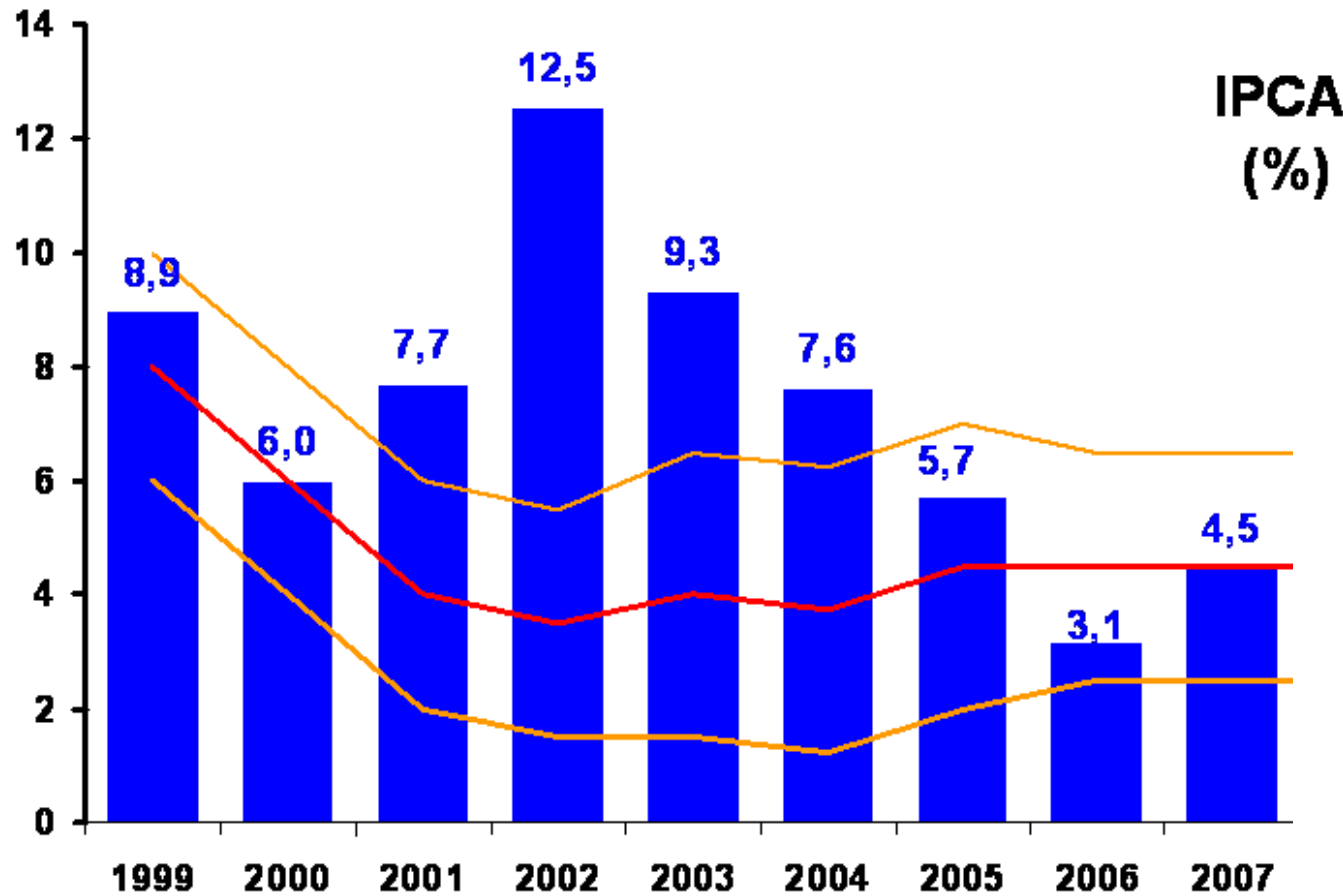
Source: Brazilian Institute for Geography and Statistics, IBGE. Elaborated by: MF/SPE.



1. Brazil 2008: better conditions to tackle crises

1.1 The economy's dynamism

Inflation stabilized



Sources: IBGE e BCB

*/ Focus: 30/04/09.
Elaborated by: MF/SPE

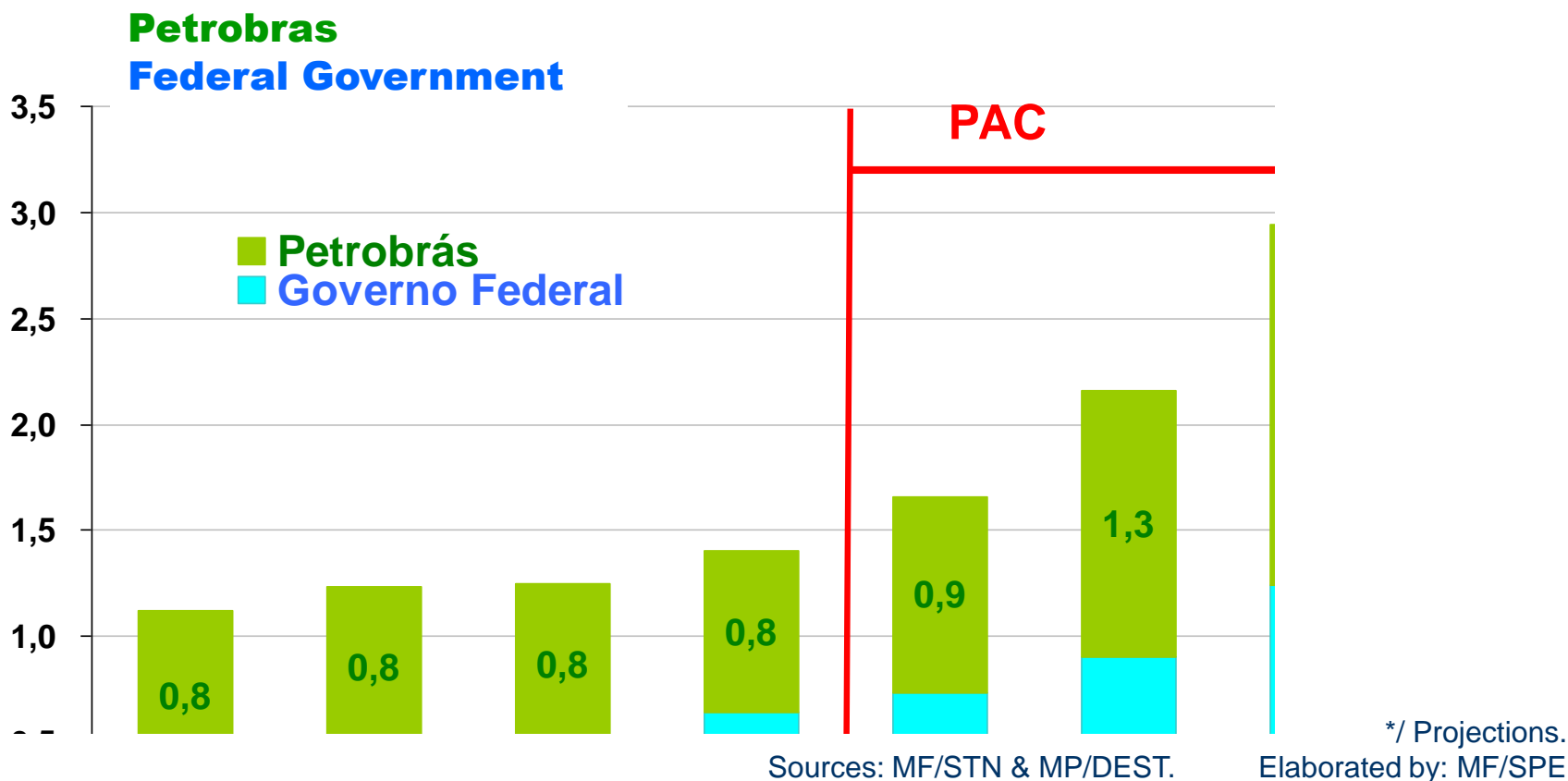


1. Brazil 2008: better conditions to tackle crises

1.1 The economy's dynamism

Investments by the Federal Government and Petrobras (%GDP)

- Growth Acceleration Plan





1. Brazil 2008: better conditions to tackle crises

1.2 Lower external vulnerability

Expressive foreign reserves – US\$ 201 billion

Better composition of the internal debt

Lower exposition of the financial system

Floating exchange rate

More diversified foreign trade



1. Brazil 2008: better conditions to tackle crises

1.3 Internal mass market in expansion

Poverty reduction

Reduction of inequalities

Continued increase of the minimum wage

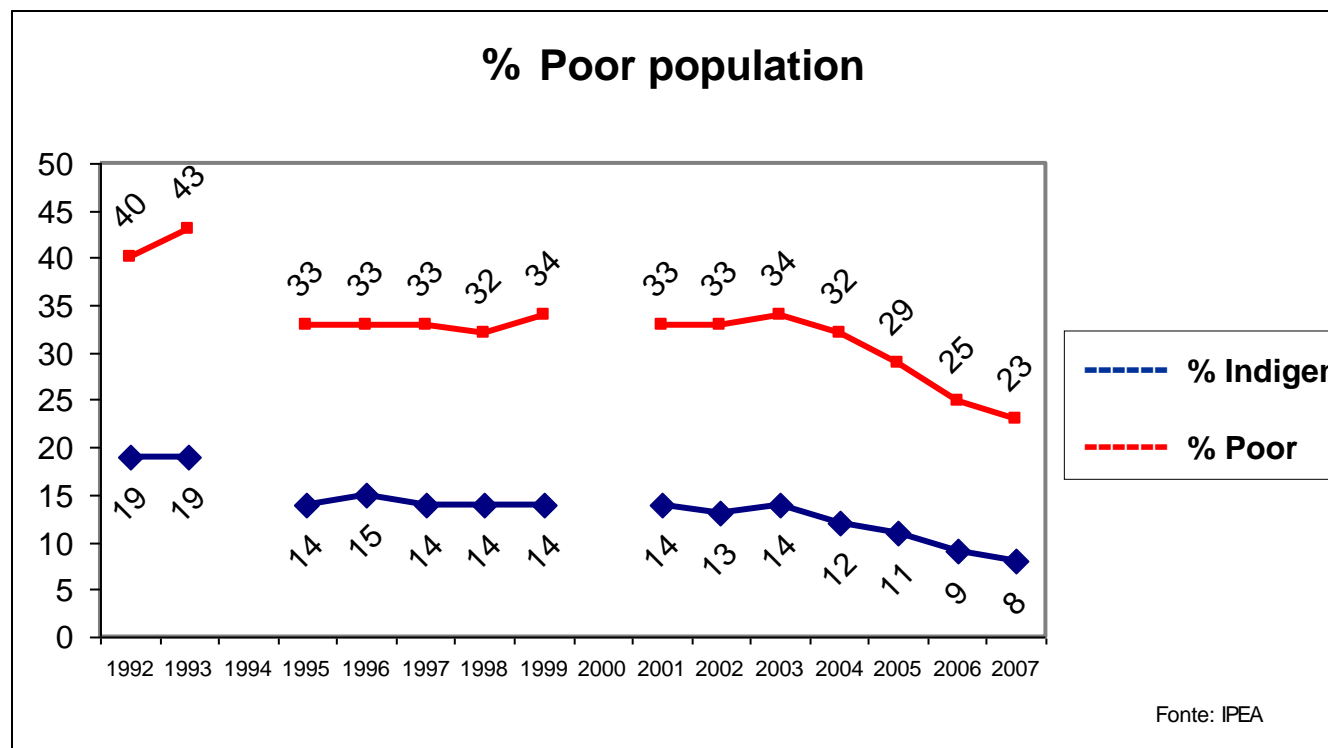


1. Brazil 2008: better conditions to tackle crises

1.3 Internal mass market in expansion

Poverty reduction

**New goal 2015:
poverty reduction
to ¼**



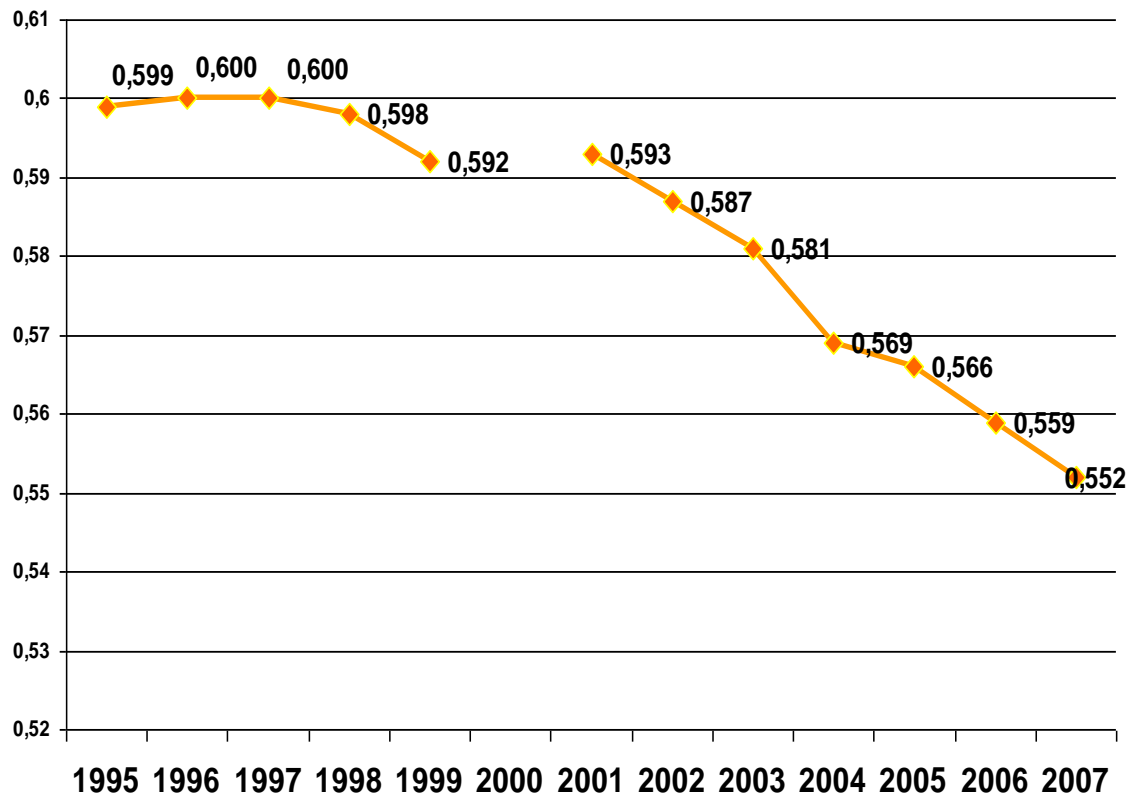
**Indigent: ¼ minimum wage per month.
Poor: ½ minimum wage per month**



1. Brazil 2008: better conditions to tackle crises

1.3 Internal mass market in expansion

Reduction of inequalities



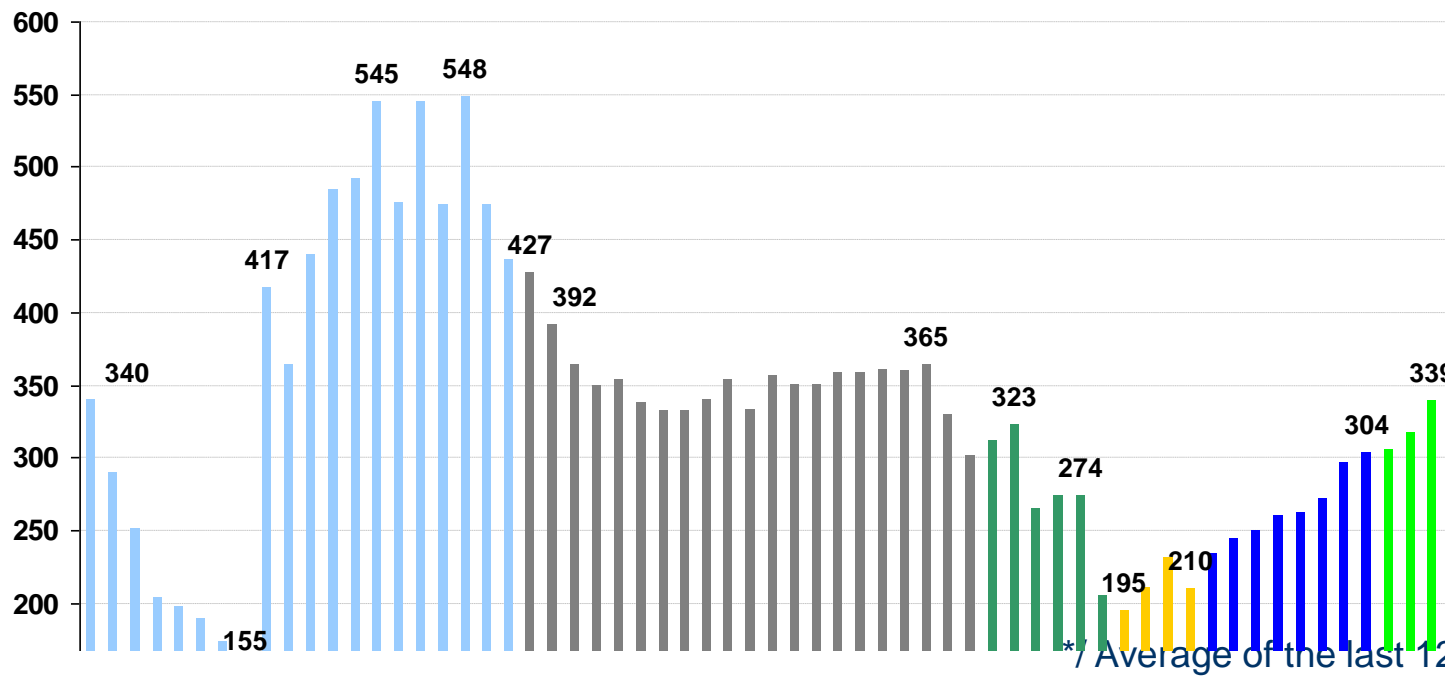
0,593 in 2001
0,552 in 2007
Yearly average reduction rate 1,2%



1. Brazil 2008: better conditions to tackle crises

1.3 Internal mass market in expansion

Minimum wage advancement – yearly average in R\$ of February 2009



**Present
R\$ 465
US\$
235.75**

Source: IPEADATA

Elaborated by: MF/SPE

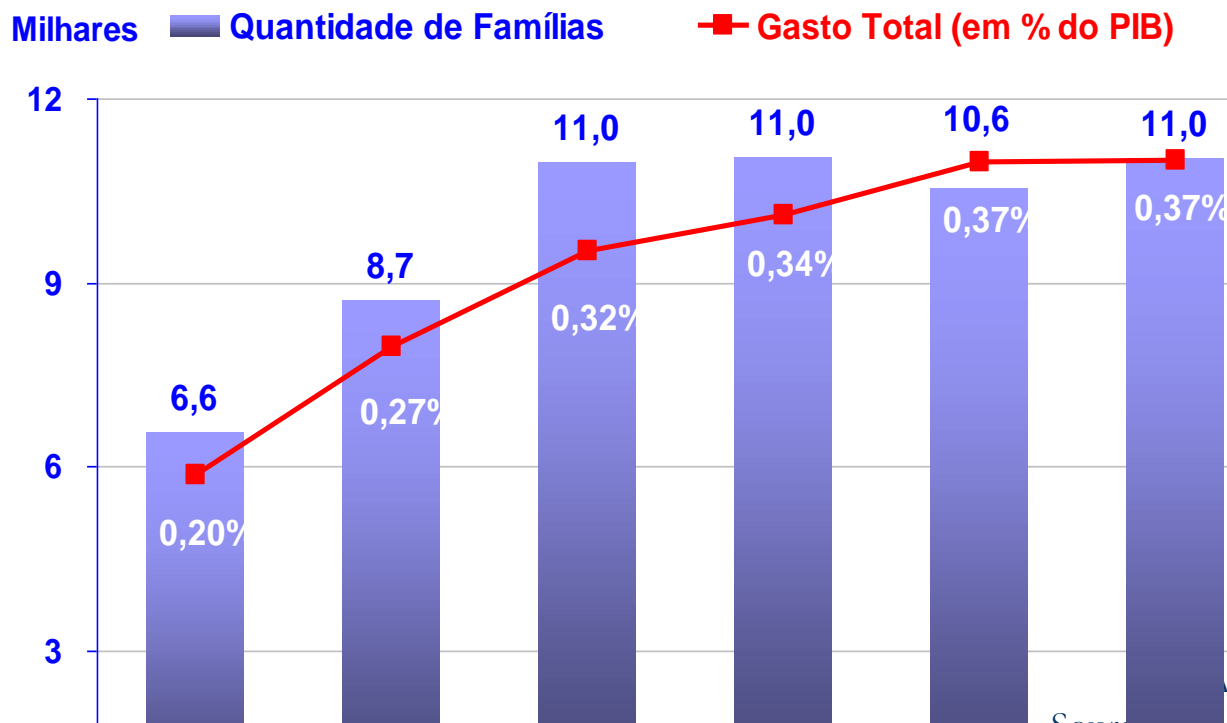


1. Brazil 2008: better conditions to tackle crises

1.4 Social protection net

“Bolsa Família” (Family stipend)

■ Nr of families (thousands) - - - - - Total expenditure (% of GDP) % of GDP



11 million families
0,37% of GDP

accumulated in 12 months until Feb/09
Source: MF/STN e MDS. Elaborated by: MF/SPE



2. Brazil's response

2.1 First set of measures

Increase in general and food inflation

Brazil

First signs of increase in food prices were evident in the first semester of 2008:

Food inflation rose from **0.44%** in Sep/07 to 1.52% in Jan/08 and **2.11%** in Jun/08

Food: 25% of general inflation

General inflation rose from **0.18%** in Sep/07 to 0.54% in Jan/08 and **0.74%** in Jun/08



2. Brazil's response

2.1 First set of measures

Responses to inflation – restrictions to consumption and increase in food production

General response

Higher interest rate:

from 11.25% in Mar/08 to 13.75% in Sep/08

Sectorial response

Lower taxes, restrictions to consumer credit, tax revision

Response in agriculture

Two harvest plans (agricultural and livestock) 2008/09:
lower interest rates, higher credit and higher minimum prices



2. Brazil's response

2.1 First set of measures

Response to inflation – restrictions to consumption and increase in food production

- **Harvest Plan – “comercial” farming**
R\$ 65 billion in credit – R\$ 55 billion for circulating capital and R\$ 10 billion for investment
- **Harvest Plan – family farming**
R\$ 13 billion (controled interest rates) - R\$ 7 billion for circulating capital and R\$ 6 billion for investment
- **Increase in minimum prices (trade guarantee): maize, beans, wheat and cassava**



2. Brazil's response

2.1 First set of measures

More food production by family farming

Introduction of the More Food Program

- R\$ 397 million for Technical Assistance: network expansion – from 20 to 30 thousand technicians in the field
- Line of credit of up to R\$ 100 thousand with interest rate of 2% per year
- Agreement with industries of tractors, motorcultivators, agricultural and add-on implements for price reductions
- Goal: increase food production in 18 million tons (2½ months of consumption)



2. Brazil's response

2.2 Second set of measures

Answer to the international crisis: warming up the economy

General

- Reduction of interest rate:
from 13.75% in Sep/08 to 9.25% in Jun/09
- Increase in consumer credit

Anticyclical measures

- Housing program
- Tax reduction (IPI) as a stimulus to industries of vehicles and “white goods” (appliances)



2. Brazil's response

2.2 Second set of measures

Answer to climatic issues

Agricultural

Draughts and floods: help to affected farmers

300.000 family farmers

R\$ 1,1 billion

Family Farming Insurance and Crop Guarantee Programme

Emergency credit – special line

Contract deadline extension

Maize sale for animal feed



2. Brazil's response

2.3 New answers

More credit, more investment, more production

General

- uninterrupted interest rate reduction and investment maintenance

Agricultural

- Law: minimum of 30% of the School Food Program resources to be used in purchases of food from family farming – R\$ 600 million in 2009
- New Harvest Plans 2009/2010
 - R\$ 92,5 billion for entrepreneurial farming
 - R\$ 15 billion for family farming
 - Increase the number of potential credit-takers
 - Higher minimum prices
 - More comprehensive insurance (resources and products)
 - Strengthening cooperativism
 - Incentive to sustainable production



2. Brazil's response

2.3 New answers

Fight unemployment and guarantee investments

Expansion of public banks' scope of action

Housing program

Under discussion

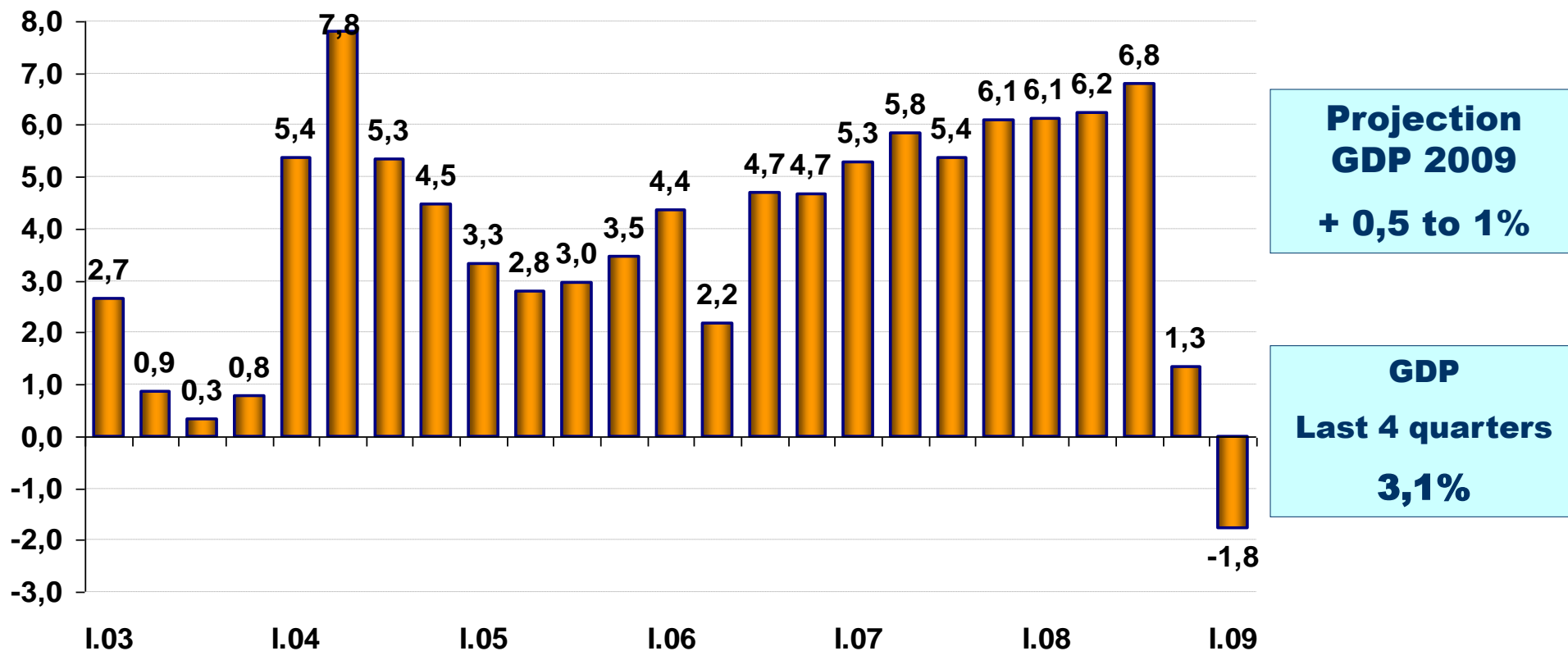
- i) Credit Guarantee Fund for small and medium enterprises – Banco do Brasil, BNDES**
- ii) New lines of credit for the capital goods industry – machinery and equipment**
- iii) Agricultural Credit Guarantee Fund**



3. Some results

3.1. Reduction of the economic activity – back from the bottom

GDP quarterly variation in relation to the same quarter of the previous year (%)

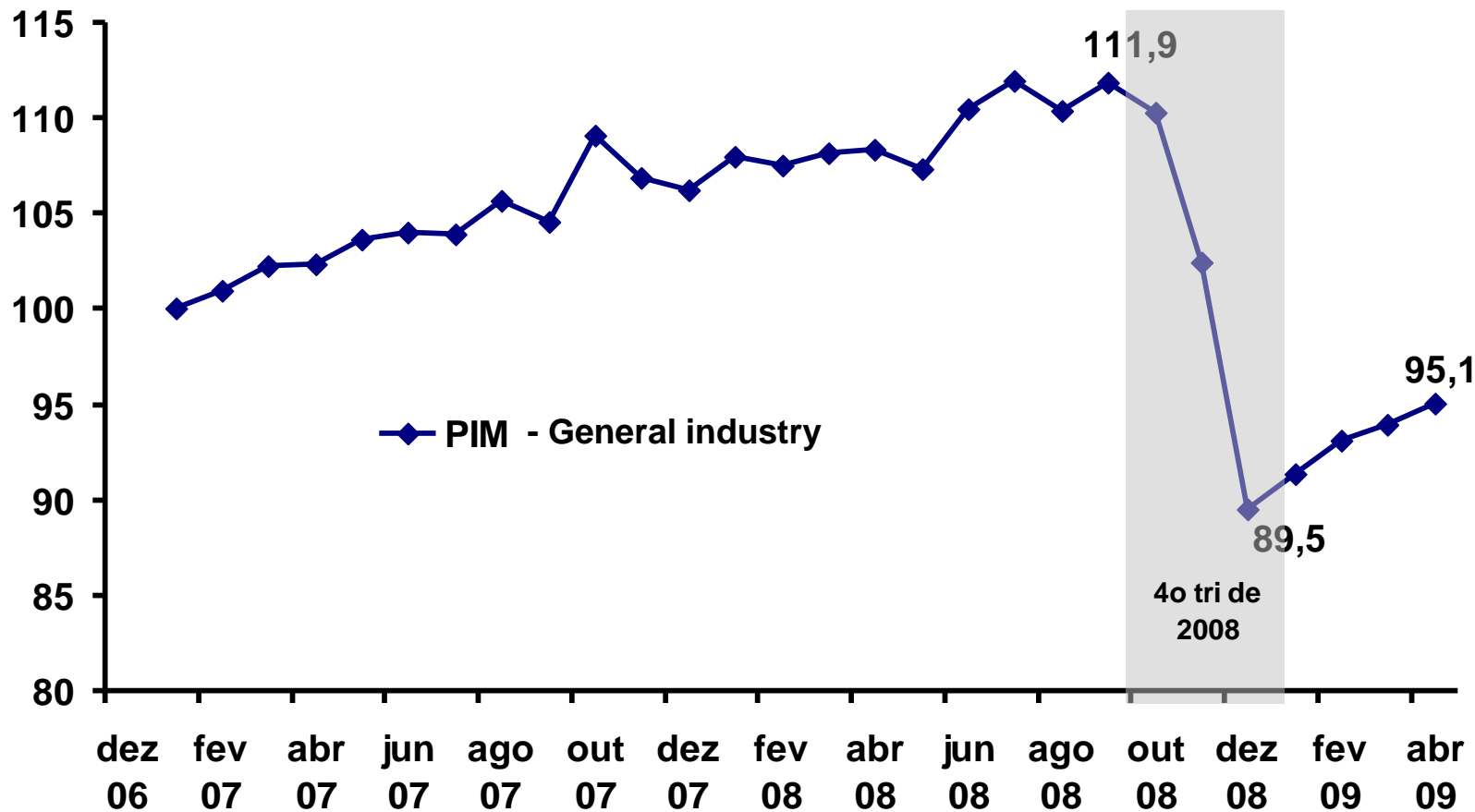




3. Some results

3.2. Recovery of industrial activity

Industrial production – index seasonally adjusted (Jan/07 = 100)



(*) includes vehicles, motorcycles, parts and construction material

Source: IBGE.

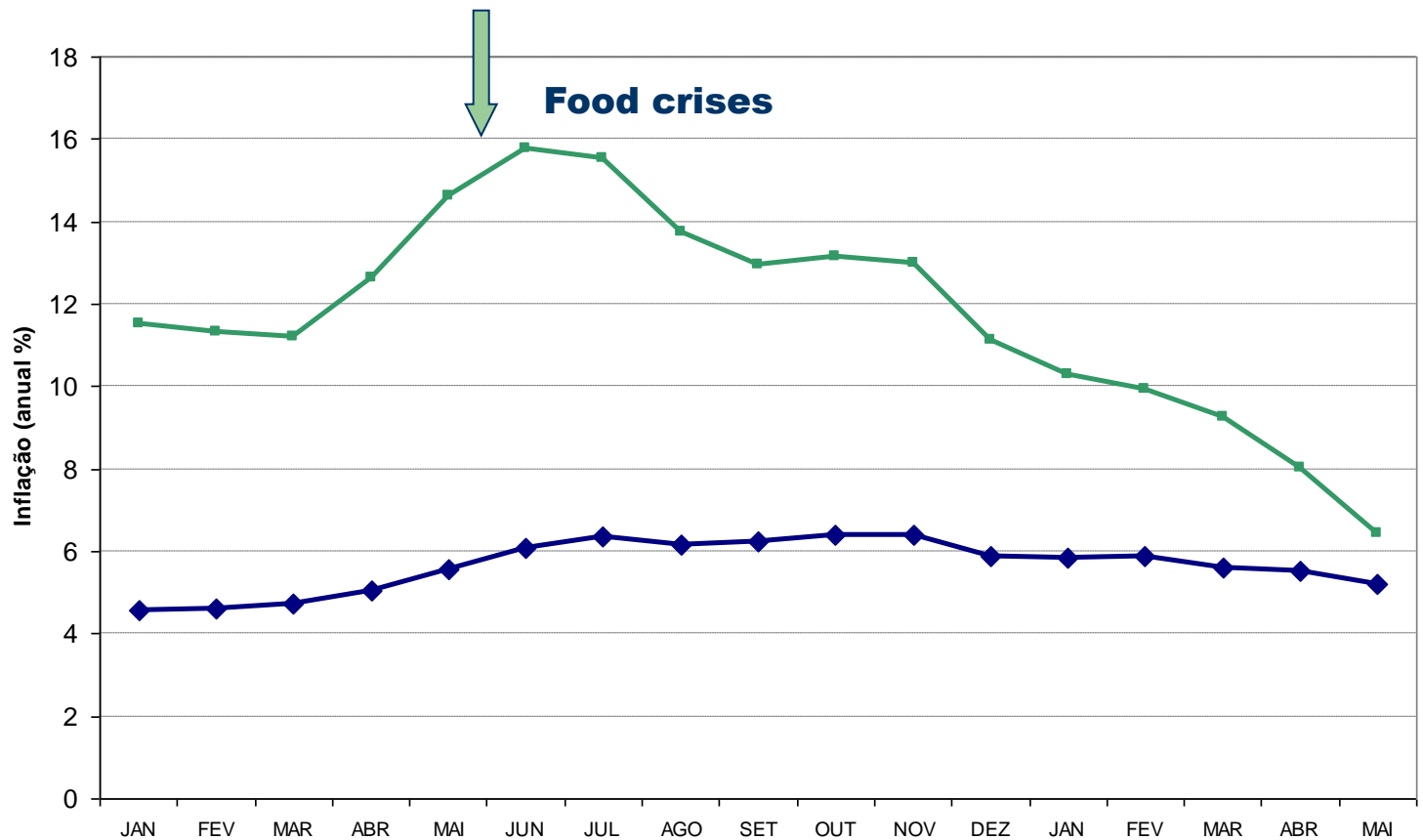
Elaborated by: MF/SPE



3. Some results

3.3. Convergence of food and general inflation

Annual General IPCA and IPCA for food and beverages (%)



| | |
|-----------------|--------------|
| May 2008 | |
| IPCA | 5,2% |
| IPCA-A | 6,44% |

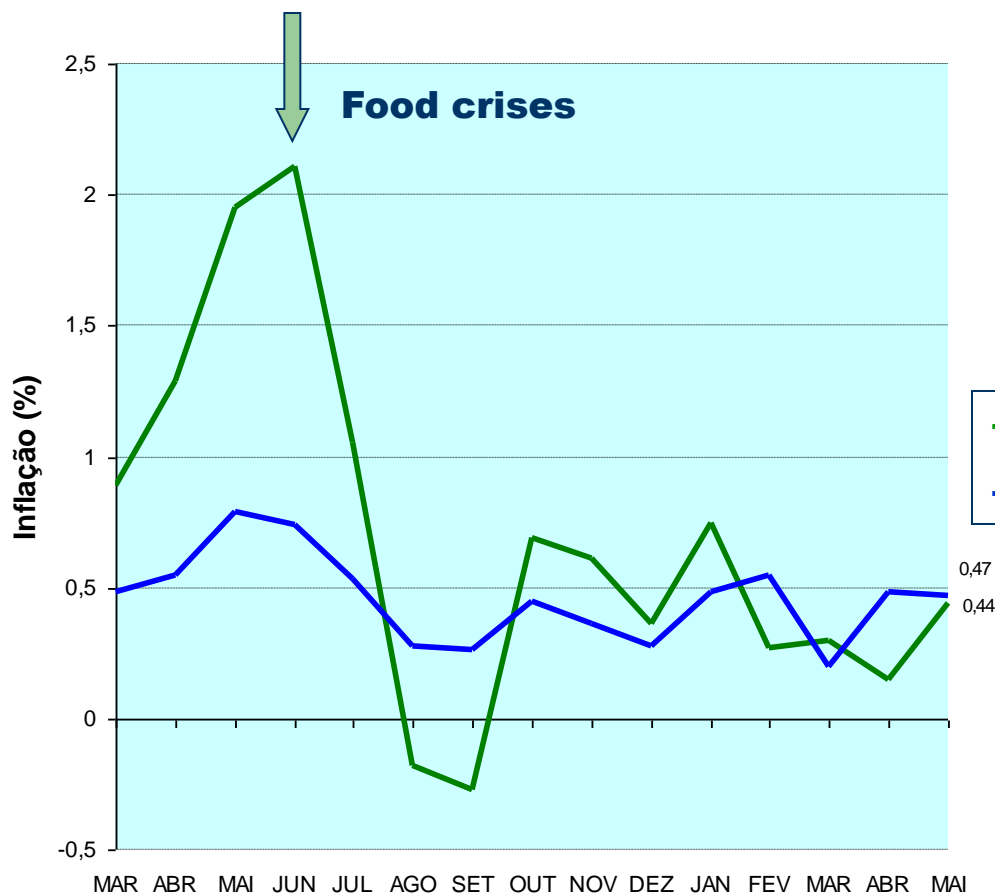




3. Some results

3.3. Convergence of food and general inflation

Variation of the General IPCA and of the IPCA for food and beverages (%)



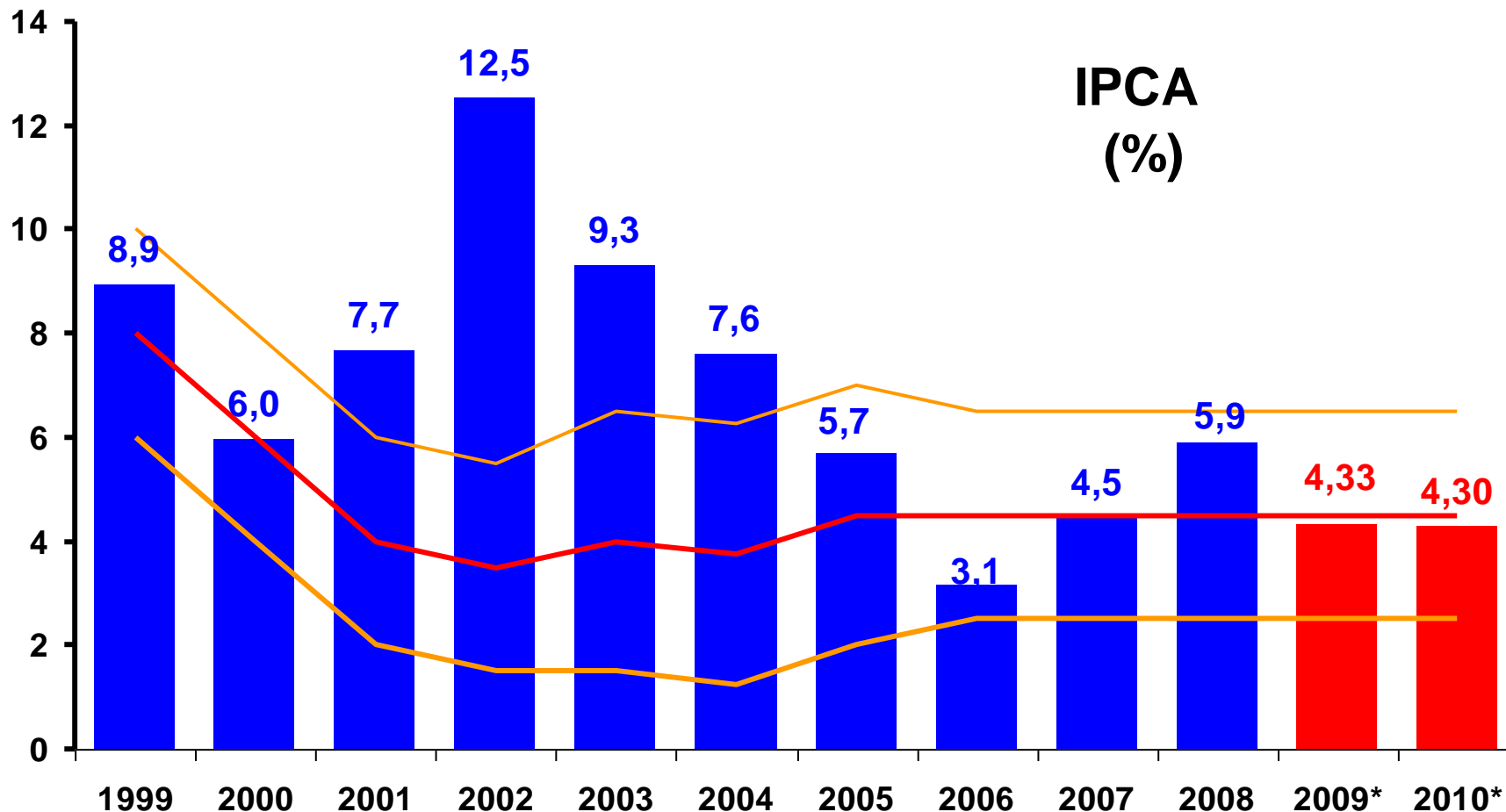
May 2008
IPCA 0,47%
IPCA-A 0,44%



3. Some results

3.4. Reduction of inflation – back to the core goal

Variation of the General IPCA in 12 months (%)



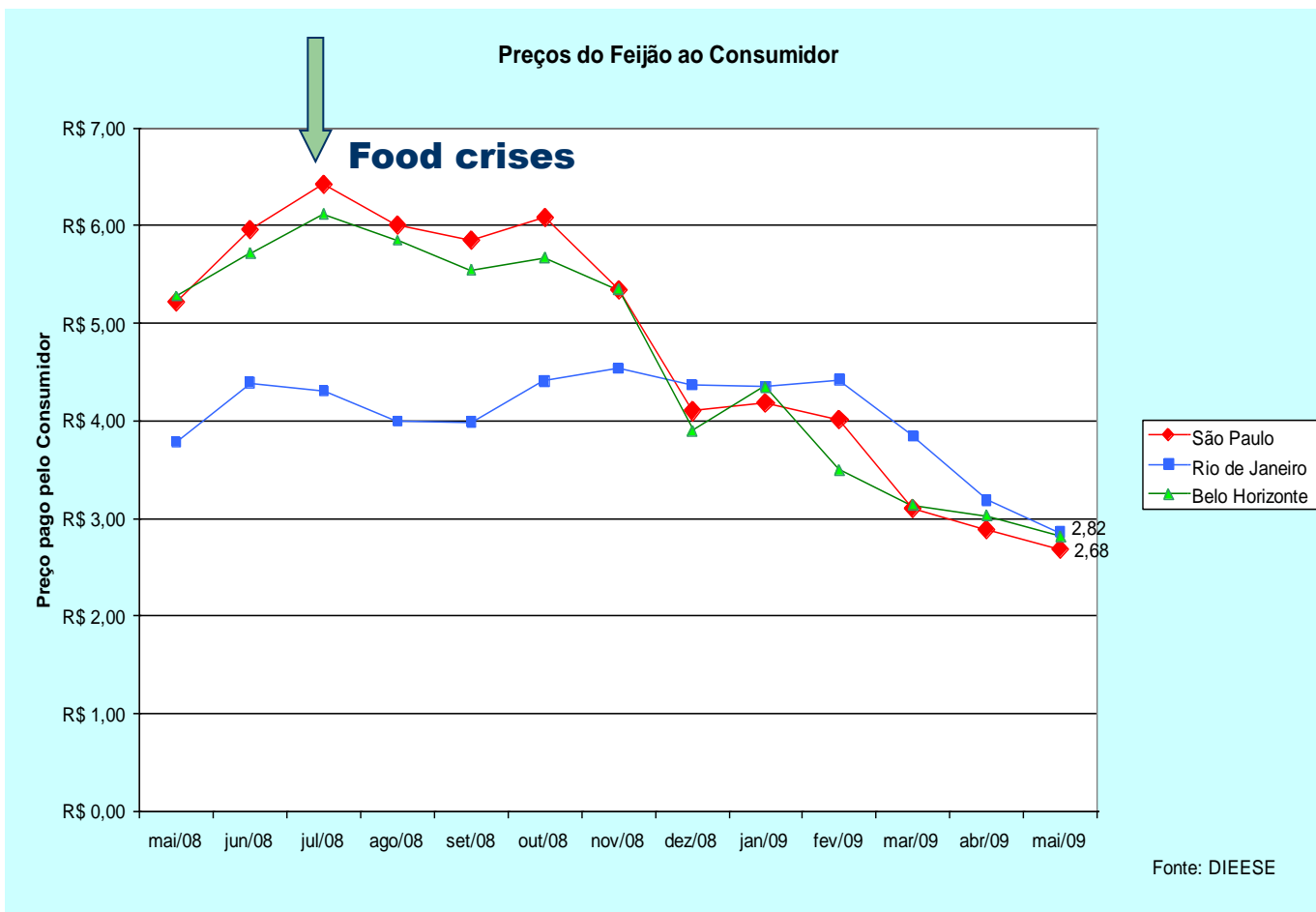
* / Focus – Market expectancies (5/6/2009).
Sources: IBGE e BCB Elaborated by: MF/SPE



3. Some results

3.5. No food inflation

The beans price drops



Price/kg June SP
2008 R\$ 6,50
2009 R\$ 2,68



3. Some results

3.6 No food inflation

Increase in food stocks

2008: 1.5 million tons

2009: 5.9 million tons

**Increase:
293%**

Source: Conab/MAPA – stocks from purchases from family farming, AGG, options contract

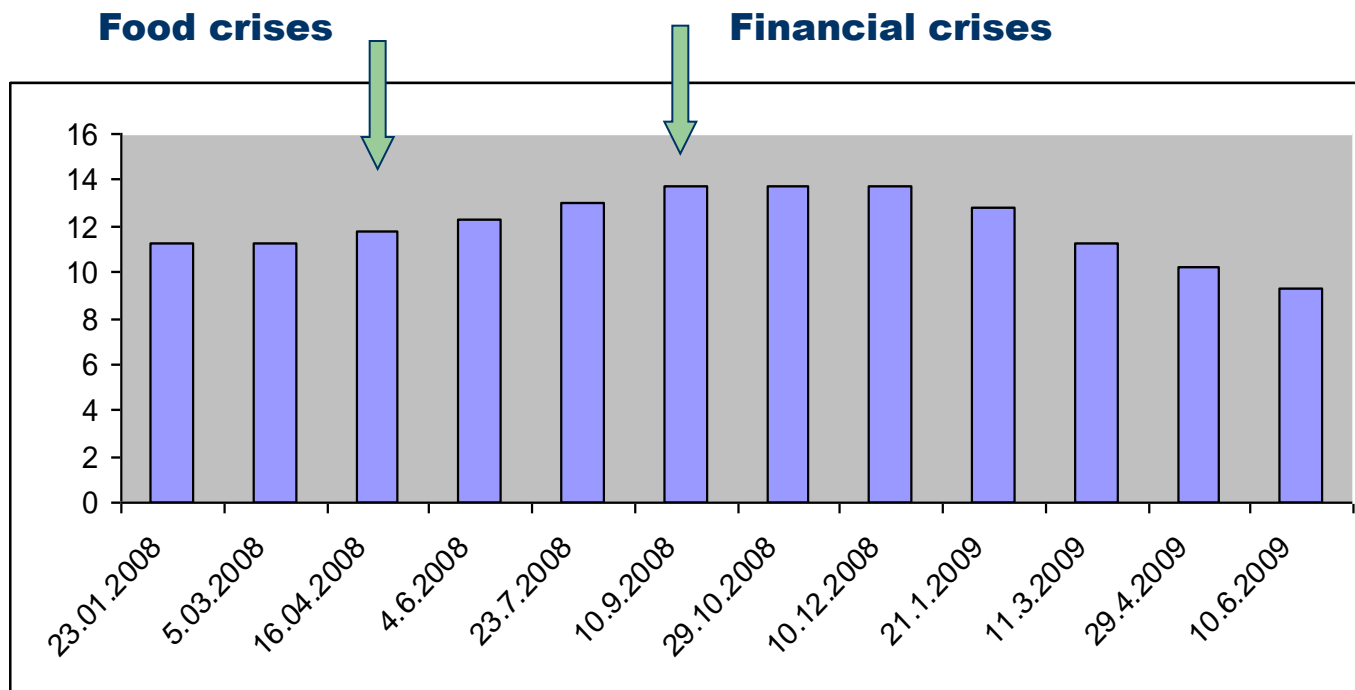


3. Some results

3.7 Stimulus to productive investments

Reduction of interest rates

Copom's decisions regarding interest rates – Selic Tax



| | |
|-----------------|---------------|
| April 08 | 11,75% |
| Sept 08 | 13,75% |
| Jun 09 | 9,25% |



3. Some results

3.8 Reduction and diversification of agro exports

2009 – January to May

Drop of 11,5%

Total : US\$ 24,1

Acceleration of exports diversification

Growth

13,2% to Asia

11,4% to the Middle East

10,7% to Africa

Asia's participation in the total grew from 23,2% to 29,6%



3. Some results

3.5 More Food Program

**12 thousand tractors mil tratores (up to 78 cv)
= more than the number of tractors financed by Pronaf in 14
years**

Share of 78cv tractors in the sector's total production

2002 – 37%

2009 – 75%

**61% of the total tractors produced were financed by the
Program**

Nationalization of components



4. Agenda for the future

4.1 Elements of the Brazilian experience

Short term response integrated to anticyclical economic policies and oriented to national development.

The crisis' impacts were diminished by the existence of a social protection network and the country's more stable economic condition.

The existence of a network of institutions and rural development and food security public policies as well as differentiated policies towards family farming made possible the increase in food production.



4. Agenda for the future

4.2 More favorable environment regarding long term answers

Joint governmental action aiming at:

- market regulation,**
- tuning up anticyclical policies and**
- fighting hunger and poverty**

Value family farming regarding food production and national development

Increase family farming's economic insertion and participation

Strengthen public institutions dedicated to rural development – financial, research, technical assistance and agricultural extension



4. Agenda for the future

4.2 More favorable environment regarding long term answers

Participation and social dialogue in the construction and implementation of public policies

Create and consolidate instruments and food security and nutritional institutional and legal mechanisms

Maintain social protection networks and measures to promote the rural populations' economic autonomy