Brazil in $2bn offer to aid cash-starved exporters

Jonathan Wheatley in São Paulo

Brazil's central bank was due to offer six-month loans of up to $2bn yesterday in an attempt to provide relief to exporters starved of trade finance as the crisis on global financial markets worsened over the past month.

The move - designed to provide much-needed liquidity in US dollars - follows initiatives to provide liquidity in Brazil's currency, the Real, to companies that have been unable to tap usual sources of short-term credit in Brazil's banking sector.

"Credit lines have dried up," said Claudio Andrade of Polo Capital, a fund manager in Rio de Janeiro. "It's mostly on the margin, but the market operates on the margin and once prices go up the whole market feels it."

In recent weeks the central bank has reduced its stringent reserve requirements - under which banks are obliged to leave a substantial proportion of their deposits at the central bank - to release more than R$100bn (US$47.5bn, €35.7bn, £27.7bn) into the economy.

But many banks have chosen not to use the money to provide credit and have instead been buying high-yielding government bonds.

Henrique Meirelles, governor of the central bank, said the loans to be offered yesterday must be used exclusively to provide trade finance - and that banks using the funds for other purposes would be punished under Brazilian law.

The country's exporters, especially in the farming sector, have been hit by a conjunction of factors including falling commodity prices that would have caused trouble for many even without the credit squeeze. Several companies have also got into difficulty by betting on the continued appreciation of the Real, which advanced from R$3.95 to the US dollar in October 2002 to R$1.56 in May this year, before falling sharply to as much as R$2.33 earlier this month.

Sadia, a food processor, Aracruz, a paper and pulp producer, and Votorantim, an industrial conglomerate, have announced heavy losses; this month Votorantim paid R$2.2bn to exit positions in currency derivatives. The government fears that as many as 250 other companies may be in similar difficulties.

This is just one reason why Brazilian banks have been unwilling to lend to companies in recent weeks. More general concerns about a slowdown in the country's economy have added to their reluctance.

Until the financial crisis worsened over the past month, many economists expected Brazil to post growth in gross domestic product of up to 5.5 per cent next year, in line with growth this year and last. Many have since reduced their predictions to less than 3.5 per cent.

Other commodities exporting countries in the region, such as Argentina, Chile and Peru, face a slump in growth next year as global demand falls. Mexico - where companies have also suffered badly by betting the wrong way on the currency - is especially vulnerable to a slowdown in the US.

The central bank said it would accept applications for the loans between 4pm and 5pm local time yesterday and that interest rates would be set during the auction at a spread above the London interbank overnight rate (Libor). Participating banks will have to post collateral equal to 105 per cent of any loans in the form of Brazilian sovereign bonds.

Fonte: Financial Times, London, October 21 2008, Primeiro Caderno, p. 3.