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Voluntary - Public

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## **Brazil**

**Post:** Brasilia

## **Agricultural Situation**

### **Brazil Offers Agricultural Debt Renegotiation to Producers**

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**Report Highlights:**

The Government of Brazil recently published in its Official Registrar resolutions that allow rural producers to renegotiate terms of investment loans held by public or private financial institutions (Res. 3.888/10) and outstanding Active Union Debt (DAU) held by the Federal Treasury (Law 12.249/10). Producers retain the right to renegotiate terms of payment on two rural investment loans, including loans previously renegotiated. Loans held as DAU are being granted discounted rates and rebates for producers who pay in full or renegotiate repayment terms by November 30, 2010. Although information regarding outstanding debt is not transparent, according to trade analysts, an estimated R\$25-35 billion (US\$14-20 billion) of agricultural debt is eligible for renegotiation of an estimated R\$75-85 billion (US\$43-48 billion) in total outstanding agricultural debt.

The Government of Brazil (GOB) recently published in its Official Registrar resolutions that allow rural producers to renegotiate terms of investment loans held by public or private financial institutions (Res. 3.888/10) and outstanding Active Union Debt (DAU) held by the Federal Treasury (Law 12.249/10). The National Treasury has assumed over the years the loan default risk from public/private financial institutions with the most recent significant transfer occurring in 2008. Although information regarding outstanding debt is not transparent, according to trade analysts, an estimated R\$25-35 billion (US\$14-20 billion) of agricultural debt is eligible for renegotiation of an estimated R\$75-85 billion (US\$43-48 billion) in total outstanding agricultural debt. Historically, three mechanisms for rural debt restructuring have been utilized by the GOB:

- Transfer of outstanding debt holdings from public and private financial institutions into Active Union Debt (DAU) of the National Treasury and periodically renegotiating terms of repayment on DAU.
- Renegotiate terms of repayment on outstanding loans held by public and private financial institutions backed by government “equalization” payments to offset newly assumed risks by these institutions.
- Forgiveness of debt, mainly utilized in subsistence and small family farm operations.

Public and private financial institutions conditionally grant extended repayment terms for outstanding investment loans for producers pursuant to the recently passed GOB resolutions. Eligible producers must present proof of inability to pay based on evidence of reduced income such as crop failure, marketing difficulties, etc. The financial institutions are limited to renegotiating up to 8 percent of the total value of the outstanding loans maturing on a yearly basis. Producers retain the right to renegotiate two rural investment loans with maturity dates beginning in 2009 with no set end-year for eligible loans emitted in the future. Loans previously renegotiated are also eligible for further renegotiated terms of repayment.

Loans held as DAU are being granted discounted rates and rebates for producers who pay in full or renegotiate repayment terms by November 30, 2010. DAU to be paid in full will be discounted between 38 to 70 percent on total value, the discount applied inversely to the total remaining debt (Table 1). Renegotiated DAU will have the total value discounted between 33 and 65 percent (Table 2). Following the percentage discount, both situations receive additional set rebates on total debt to be repaid depending on the outstanding balance. Furthermore, loans pertaining to the Northeast Development jurisdiction receive an additional 10 percentage points to the discount percentage tier. Also, Law 12.249 suspends court actions associated with the collection of outstanding debts until November 30, 2010.

**Table 1. Discounts applied to rural Active Union Debt (DAU) paid in full before November 30,**

## 2010

Total Outstanding Balance at time of renegotiation (R\$ '000)	Discount (%)	Additional Discount off of the Total Balance after percentage discount applied. (R\$)
Up to 10	70	-
Above 10 to 50	58	1,200.00
Above 50 to 100	48	6,200.00
Above 100 to 200	41	13,200.00
Above 200	38	19,200.00

Source: Brazilian Confederation of Agriculture and Livestock (CNA)

**Table 2. Discounts applied to rural Active Union Debt (DAU) renegotiated before November 30, 2010**

Total Outstanding Balance at time of renegotiation (R\$ '000)	Discount (%)	Additional Discount off of the Total Balance after percentage discount applied. (R\$)
Up to 10	65	-
Above 10 to 50	53	1,200.00
Above 50 to 100	43	6,200.00
Above 100 to 200	36	13,200.00
Above 200	33	19,200.00

Source: Brazilian Confederation of Agriculture and Livestock (CNA)

Other relevant reports:

[BR0613- Brazil Announces Credit Package for 2010/11 Crop Year](#)

