INTERNATIONAL MONETARY FUND

December 31, 1958

Mr. Cochran:

Attached are two weekly progress reports--Brazil and Bolivia.

I would suggest that a copy be forwarded to Mr. Southard for information.

G. A. Costanzo

Mr. B. Brovedani December 3[illegible]

G. Escobar

Brazil--Report for the Week Ended December 20, 1958

The average agio for U.S. dollars rose to Cr$199.8 per dollar, only 3.4 per cent below the record high quoted at the beginning of September, following the reduction in exchange sales at that time. According to press reports the free rate declined slightly to Cr$130 per dollar in the week ended December 20. The sale of foreign exchange at auction was the same as in preceding weeks.

The currency issue rose to Cr$120.4 billion, 4.2 per cent higher than a month ago. This level is Cr$18.4 billion above the stand-by ceiling of Cr$102 billion proposed for December 1958.

The Government's deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, rose further to Cr$29.5 billion in the week ended December 20. The present level of borrowing exceeds by Cr$9.5 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

Brasil-- Exchange Market

(In cruzeiros per U.S. dollar)

		Free Market rate (monthly average) 1/	Free Market rate (end of period)
1949:	December	66.6	69.5
1950:	January	96.1	97.5
	February	113.0	99.5
	March	121.6	166.8
	April	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.6	134.9
	August	154.8	159.5
	September	193.1	156.3
	October	169.3	140.8
Week ended:			
	November 8	192.6	139
	29	171.9	135
	December 6	135.9	135
	13	184.9	133
	20	199.8	136

1/ For Rio de Janeiro and Sao Paulo

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period	Currency Issue	Government Borrowing 1/
1957: December	96.6	36.6
1958: January	98.9	6.1
February	94.6	10.9
March	96.6	13.8
April	99.1	16.9
May	101.6	19.6
June	103.4	22.6
July	103.4	23.9
August	104.2	23.2
September	109.4	22.7
October	111.6	25.6
Week ended:		
November 6	115.4	25.1
29	115.6	27.6
December 6	116.2	28.4
13	117.4	27.5
20	120.4	29.5

1/ Treasury net position with the Bank of Brazil plus issue of Treasury bills.

December 23, 1958

Dear Mr. Bergstein:

I wish to acknowledge receipt of your letter of December 9, DE/DIVIN/Cta. 219/58, with summary tables of the data received by weekly cable in accordance with the agreement between the International Monetary Fund and the Brasilian Government.

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Fernando Bergstein
Chefe do Departamento Econômico
Divisão de Assuntos Internacionais
Superintendência da Moeda e do Crédito
Rio de Janeiro, Brasil

128329

Superintendência da Moeda e do Crédito

Rio de Janeiro, 9 de dezembro de 1958

DE/DIVIN/Cta. 219/58

Ilmo. Sr.
Jorge Del Canto
DD. Diretor do Departamento do
Hemisfério Ocidental
Fundo Monetário Internacional
Washington 25, D.C.
Estados Unidos da América

Prezado Senhor,

Tendo em vista as remessas de informações, feitas de acôrdo com os entendimentos mantidos entre o Govêrno Brasileiro e o Fundo Monetário Internacional, e em atenção ao solicitado em sua carta de 10 de setembro pp., temos o prazer de enviar, anexos, quadros contendo dados mensais retrospectivos das informações semanais, até novembro de 1958, sôbre a evolução da situação cambial, monetária e fiscal do Brasil.

Atenciosas saudações,

DEPARTAMENTO ECONÔMICO
Divisão de Assuntos Internacionais

Fernando Bergstein
pelo Chefe do Departamento

Christiano N. Sampaio Vianna
pelo Chefe da Divisão

Anexos.

/RM

December 22, 1958

Dear Herculano:

I wish to acknowledge receipt of your letter of December 10, DE/DIVIN/Cta.225/58, with data concerning the fiscal, credit and exchange position of Brazil, in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe do Departamento
Divisão de Assuntos Internacionais
Superintendencia da Moeda e do Crédito
Rio de Janeiro, Brasil

128328 2

Superintendência da Moeda e do Crédito

Rio de Janeiro, 10 de dezembro de 1958.

DE/DIVIN/Cta. 225/58

Mr.
Jorge Del Canto
Director of Western Hemisphere Department
International Monetary Fund
Washington D.C.
U. S. A.

DEC 20 1 14 PM 1958
INTERNATIONAL MONETARY FUND
RECEIVED CORRESPONDENCE SECTION

Prezado Senhor,

De acôrdo com os entendimentos mantidos entre o Govêrno brasileiro e o Fundo Monetário Internacional, e em atenção ao solicitado em sua carta de 10 de setembro pp., temos o prazer de confirmar o telegrama desta data contendo as informações constantes do quadro anexo, referentes à evolução do movimento cambial, fiscal e de crédito do Brasil, verificada na semana terminada em 6 de dezembro.

Atenciosas saudações,

DEPARTAMENTO ECONÔMICO
Divisão de Assuntos Internacionais

Fernando Bergstein
pelo Chefe do Departamento

Christiano N. Sampaio Vianna
pelo Chefe da Divisão.

Anexo.

AR/RM

INTERNATIONAL MONETARY FUND

December 22, 1958

Mr. Cochran:

Attached is the weekly report on developments in Brazil. I would suggest that a copy be passed on to Mr. Southard.

G. A. Costanzo

Mr. G. David Finch December 19, 1958

G. Escobar

Brazil--Report for the Week Ended December 13, 1958

The average agio for U.S. dollars remained stable in the second week of December, declining to Cr$184.9 per dollar, only one point below the preceding week. According to press reports the free rate declined to Cr$133.3 per dollar in the week ended December 13. The sale of foreign exchange at auction was the same as in preceding weeks.

The currency issue rose further to Cr$117.4 billion, 1.5 per cent above a month ago. This level is Cr$15.4 billion above the stand-by ceiling of Cr$102 billion proposed for December 1958.

The Government's cash deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, declined slightly to Cr$27.5 billion in the week ended December 13. The present level of borrowing exceeds by Cr$7.5 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

The latest detailed data available on government finances indicate a cash deficit of Cr$21.5 billion up to October, while government borrowing up to that time was Cr$25.6 billion. The excess of government borrowing over the cash deficit is composed of Treasury cash, deposits in the branches of the Bank of Brazil, and items in transit.

OFFICIAL | OUTGOING MESSAGE | OFFICIAL

FOR PREPARING OFFICER
- ☐ Night Letter
- ☐ Ordinary
- ☐ Code

SPECIAL INSTRUCTIONS

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

	End of period	Currency Issue	Government Borrowing 1/
1957:	December	96.6	36.0
1958:	January	94.0	6.1
	February	94.6	10.9
	March	96.6	13.8
	April	99.1	16.9
	May	101.6	19.6
	June	103.4	22.6
	July	103.4	23.9
	August	104.3	23.2
	September	108.9 2/	22.7
	October	111.6	25.6
Week ended:			
	November 8	115.4	25.1
	29	115.6	27.6
	December 6	116.2	28.4
	13	117.4	27.3

1/ Treasury net position with the Bank of Brazil plus issue of Treasury bills.
2/ Data for September 27.

Cleared with Mr. Horne

Drafted By: William/ml
Office of the Treasurer
Approved:
Date: December 18/58

AUTHORIZATION

Signature

Second Telegram Were Received

FOR COMM ROOM
Time Received
Time Dispatched
Number of Words
Log
Route
Operator

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
TRS
WHD
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RES
ERD
SEC

DO NOT TYPE BELOW THIS LINE

Superintendência da Moeda e do Crédito

Rio de Janeiro, 3 de dezembro de 1958.

DE/DIVIN/Cta.218/58

DEC 16 4 PM 1958

Mr.
Jorge Del Canto
Director of Western Hemisphere Department
International Monetary Fund
Washington D.C.
U.S.A.

Prezado Senhor,

De acôrdo com os entendimentos mantidos entre o Govêrno brasileiro e o Fundo Monetário Internacional, e em atenção ao solicitado em sua carta de 10 de setembro pp., temos o prazer de confirmar o telegrama desta data contendo as informações constantes do quadro anexo referentes à evolução do movimento cambial, fiscal e de crédito do Brasil, verificada na semana terminada em 29 de novembro.

Atenciosas saudações,

DEPARTAMENTO ECONÔMICO
Divisão de Assuntos Internacionais

Herculano Borges da Fonseca
Chefe do Departamento

Christiano N.Sampaio Vianna
Pelo Chefe da Divisão

Anexo.

Office Memorandum

TO : Mr. C. David Finch

DATE: December 12, 1958

FROM : G. Escobar

SUBJECT : Brazil--Report for the Week Ended December 6, 1958

After falling to the lowest level in three months at the end of November, the average agio for U.S. dollars rose again to Cr$185.9 per dollar in the week ended December 6. According to press reports the free rate remained unchanged at Cr$135.1 per dollar. The firmness of the free rate appears to reflect the transfer of some exports to the free market. The sale of foreign exchange at auction was the same as in preceding weeks.

The issue of currency rose slightly by Cr$0.6 billion, to Cr$116.2 billion in the week ended December 6. This level was Cr$14.2 billion above the stand-by ceiling of Cr$102 billion proposed for December 1958 (see EBS/58/25, Sup. 3). Seasonal factors can be expected to place heavy pressure for expansion during the rest of December.

The Government's cash deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, rose to Cr$28.4 billion in the week ended December 6. The present level of borrowing exceeds by Cr$8.4 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

		Agio per US$ 1/ (Monthly average)	Free Market Rate (end of period)
1957:	December	66.8	90.5
1958:	January	96.1	97.5
	February	113.0	99.5
	March	121.6	106.8
	April	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	August	154.8	159.5
	September	193.1	156.3
	October	189.3	140.8
Week ended:			
	November 8	192.6	138.9 2/
	29	171.9	135.1 2/
	December 6	185.9	135.1 2/

1/ For Rio de Janeiro and São Paulo.
2/ New York banks' selling prices for cable transfers on Friday of each week.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of period		Currency Issue	Government Borrowing 1/
1957: December		96.6	36.0
1958: January		94.0	6.1
February		94.6	10.9
March		96.6	13.8
April		99.1	16.9
May		101.6	19.6
June		103.4	22.6
July		103.4	23.9
August		104.3	23.2
September		108.9 2/	22.7
October		111.6	25.6
Week ended:			
November	8	115.4	25.1
	29	115.6	27.6
December	6	116.2	28.4

1/ Treasury net position with the Bank of Brazil plus issue of Treasury bills.

2/ Data for September 27.

Office Memorandum

TO : Mr. C. D. Finch

DATE: December 9, 1958

FROM : B. Brovedani

SUBJECT : Brazil--Statistics on Suppliers' Credits

In the letter attached to the stand-by agreement, the Brazilian authorities stated that:

> "with regard to registration with SUMOC of suppliers' credits in convertible and ACL currencies, the Brazilian Government will not exceed the total amount as of December 31, 1957. New authorizations will be limited to the amount of repayments and cancellations of the principal of suppliers' credits, and will, moreover, be restricted to highly essential projects, and will be granted only in cases where repayment schedules allow for a three year period of grace".

Table 1 was prepared on the basis of the information recently remitted by SUMOC covering the first half of 1958, and showing the new authorizations of suppliers' credits and the repayments effected. In effect the statistical tables received from SUMOC include authorizations for loans which are not included in the definition of suppliers' credit; for this reason all IBRD loans were excluded from Table 1 attached, as well as loans by the Exim Bank granted for the purpose of financing a payments disequilibrium. The International Bank suggests the following definition of suppliers' credits:

> "Suppliers' credit is credit involving the fixed contractual repayment obligations in foreign currency of medium term (1 to 7 years inclusive) used for the direct financing of exports to Brazil. Creditor is frequently supplier of goods, but may be commercial bank or Government institution. Credit may or may not be guaranteed by the Brazilian Government or agency thereof".

Although most of the loans extended by the Exim Bank fall within the definition of suppliers' credit, the loan of $104 million of August 1958 was definitely for other purposes. Table 1 shows all new authorizations and repayments of principal during the first half of 1958 of suppliers' credit, excluding the Exim Bank, but including credits in inconvertible currencies.

A cursory examination of the table indicates that during the first half of the year authorizations for new credits exceeded repayments of principal by a considerable amount. About $31 million were added by United States creditors (including Exim Bank), DM 37 million by German creditors, and $36 million by Japanese creditors, to mention only the most important. Reduction occurred only with respect to three countries (Switzerland, Canada and the United Kingdom), and by relatively small amounts. These credits vary in maturity from 3 to 7 years, and bear interest at rates of 5 to 8 per cent.

Table 1.
Brazil—Suppliers' Credits
Changes during the first half of 1958

(figures in thousands)

Country	Currency	Outstanding 31/12/57	Repayments	New	Net Change
United States 1/	$	121,942	-10,112	30,556	+20,444
Switzerland	Sw F	30,434	-3,343	984	-2,459
Switzerland	US$	75	-5	—	-5
Canada	Can$	4,423	-707	—	-707
United Kingdom	£	5,827	-1,115	372	-743
Germany	DM	136,447	-13,549	50,582	+37,033
Germany	US$	55	-11	—	-11
Italy	Lit	899,368	-116,053	5,354,920	+5,238,867
Italy	US$	5,540	-498	6,156	+5,658
Italy	US$	122	-25	—	-25
Belgium	BF	4,525	-574	2,000	+1,426
Belgium	US$	280	—	—	—
Netherlands	f.	306	-100	25,695	+25,595
France	F	123,199	-35,710	53,150	+17,440
France	US$	73,335	-7,161	8,671	+1,510
Denmark	DKr	18,531	-1,384	2,538	+1,154
Sweden	SKr	27,707	-3,969	22,714	+18,745
Finland	Fmk	3,737	-188	—	-188
Japan	¥	7,653	-561	36,706	+36,145
Poland	Zl	7,934	-4,042	13,672	+9,630
Czechoslovakia	Kcs	—	—	4,173	+4,173

1/ IBRD and Exim Bank excluded; excluding the balance of payments loan of August 1958 of $104,000, there was a net increase of $11 million in Exim Bank loans during the first half of 1958.

INTERNATIONAL MONETARY FUND

December 8, 1958

Mr. Del Canto
Mr. Gold
Mr. Kroc
Mr. Finch

Re: Brazil

Herewith is the proposed staff paper on Postponement of Consultations Under Stand-by Arrangement and Repurchase Commitment; also herewith is draft letter from Minister of Finance to Mr. Jacobsson.

G. A. Costanzo

DRAFT

December 8, 1958

To: Members of the Executive Board

From: The Managing Director

Subject: Brazil--Postponement of Consultations Under Stand-by Arrangement and Repurchase Commitment.

The Brazilian Government in a letter dated December ___, 1958, requests that consultations with the Fund under paragraph 4 of the stand-by arrangement (EBS/58/25, Sup. 3) be postponed until April 30, 1958. Under the existing stand-by arrangement with the Fund, Brazil has the right, subject to the terms of the stand-by arrangement, to purchase currencies of member countries up to the level at which the Fund's holdings of cruzeiros are equivalent to 150 per cent of quota. Under paragraph 4 of the stand-by arrangement, however, when gross purchases by Brazil total the equivalent of US$54.75 million, Brazil may make further purchases only after consulting the Fund and agreeing with it on the terms for such further purchases. Gross purchases by Brazil under the stand-by arrangement now total US$54.75 million.

The Fund's holdings of cruzeiros are at a level of 150 per cent of quota, which is the maximum permitted under the stand-by arrangement. A repurchase commitment of US$20.25 million, however, is payable not later than December 31, 1958. This is the last installment of the schedule adopted by the Executive Board in postponing the discharge of repurchase obligations as of April 30, 1953 and April 30, 1954 under Article V, Section 7(b) (EBM 55/17). The carrying out of this repurchase obligation would lower the Fund's holdings of cruzeiros to 136.5 per cent of quota and make possible further drawings of US$20.25 million under the stand-by arrangement,

provided, as indicated above, that agreement is reached on the terms for such further drawings. It was originally contemplated by Brazil that it would agree on such terms at this time because of the repurchase installment falling due.

In discussions with the Managing Director of the Fund on December 5 and 8, the Brazilian Minister of Finance gave the following information. He indicated that since he has been in office only five months, he has not yet had time to put his program fully into effect. He stated that although some aspects of the program submitted to the Fund have been carried out, implementation of the program as a whole has lagged. Thus, currency issue which was not to exceed Cr$102 billion by the end of 1958 stood at Cr$116 billion as of November 29, 1958. The Minister of Finance indicated, however, that progress has been made with respect to the budgetary targets. Under the program, the budgetary cash deficit was to be kept to Cr$20 billion in 1958 as compared with Cr$36 billion in 1957. When the new Minister of Finance took office in early July, the budgetary cash deficit was already about Cr$20 billion. The Government has succeeded in keeping this figure from growing substantially. The Minister of Finance indicated that the over-all government budgetary cash deficit as of November 21, 1958 amounted to about Cr$21 billion. Normal heavy end-of-year payments, however, may result in a total cash deficit for the year of about Cr$25 billion. The difficulties in stemming the rate of monetary inflation has been due primarily to the expansion in Bank of Brazil credit to the private sector. The Government is now working out techniques to bring this factor under control.

With respect to the exchange system, the Brazilian Government undertook originally in connection with the stand-by arrangement to increase the preferential rate of Cr$58.82 per U.S. dollar for certain imports and financial payments by 10 per cent each semester until a rate of Cr$70 was reached. This rate was increased to Cr$80 per U.S. dollar on October 4, 1958 (SM/58/79). In accordance with the Minister's letter of July 25, 1958 (EBS/58/38), the weekly offer of U.S. and ACL dollars in the auction market for "general" category imports was reduced by 20 per cent, beginning September 1, 1958.

The Government has now adopted a financial program for 1959, which is designed to limit the expansion in money supply in 1959 to 10 per cent above the estimated level as of the end of 1958. The program involves a reduction in the over-all cash deficit of the Government to Cr$10 billion in 1959. Ceilings have also been established on the total credit of the Rediscount Department of the Bank of Brazil to the Bank of Brazil and the commercial banking system.

The Brazilian Minister of Finance indicated his hope that in four or five more months more concrete progress will be made toward the goal of internal stability. Accordingly, he requests that the consultations under paragraph 4 of the stand-by arrangement be postponed, but concluded before April 30, 1959.

The letter from the Minister of Finance of Brazil also includes a request for a temporary postponement to the end of the stand-by arrangement period, i.e., June 2, 1959, of the repurchase installment of US$20.25 million maturing on December 31, 1958. Since this repurchase commitment relates to purchases made in 1953, the proposed postponement would extend the repurchase beyond the five year period.

The staff believes that it would be advantageous to postpone consultations as requested by Brazil. In view of the postponement of these consultations and the continued difficult payments postion of Brazil, the staff would also recommend approval of the requested temporary postponement of the repurchase installment payable not later than December 31, 1958. Accordingly, the following decision is submitted for the consideration of the Executive Board:

> Brazil has requested the Fund to agree that the last installment in the repurchase schedule adopted at EBM 53/78 and 55/17 be postponed so that it is discharged not later than June 2, 1959. The Fund agrees to the request made by Brazil.

It is not intended to place this matter on the agenda of the Executive Board unless an Executive Director so requests. In the absence of such request by the close of business on _____, December ____, 1958, the above decision will be deemed adopted and so recorded in the minutes of the first meeting of the Executive Board thereafter.

DRAFT

December 8, 1958

Dear Mr. Jacobsson:

Brazil has made gross purchases of US$54.75 million under its stand-by arrangement with the Fund. Therefore, under paragraph 4 of the stand-by arrangement, it may make further purchases only after consulting the Fund and agreeing with it on the terms for such further purchases, provided always that the Fund's holdings of cruzeiros are within 150 per cent of quota. The new financial administration which took office early in July 1958, has not yet had sufficient time to implement fully its own program for internal stabilization. The new financial administration hopes to be in a position to show concrete progress toward internal stability in four or five months and, accordingly, it is requested, on behalf of the Brazilian Government, that consultations under paragraph 4 of the stand-by arrangement be concluded before the end of April 1959.

In view of the requested postponement in these consultations, Brazil also requests the temporary postponement of a repurchase obligation of US$20.25 million payable not later than December 31, 1958. As you are aware, due to recent developments, including a drop of 20 per cent in the price of coffee during 1958, Brazil's external payments position continues difficult. Exchange reserves are currently at a low level, leaving only a small margin beyond minimum working balances.

Sincerely yours,

Lucas Lopes
Minister of Finance of Brazil

December 11, 1958

Dear Herculano:

I wish to acknowledge receipt of your letter of December 1, DE/DIVIN/Cta/215/58 with data concerning the fiscal, credit and exchange position of Brazil, in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe do Departamento
Superintendencia da Moeda e do Crédito
Rio de Janeiro, Brasil

pms

CENTRAL FILES

12804

Superintendência da Moeda e do Crédito

Rio de Janeiro, 1º de dezembro de 1958.

DE/DIVIN/Cta.215/58

Mr. Jorge Del Canto
Director of Western Hemisphere Department
International Monetary Fund
Washington D.C.
U.S.A.

Prezado Senhor,

De acôrdo com os entendimentos mantidos entre o Govêrno brasileiro e o Fundo Monetário Internacional, e em atenção ao solicitado em sua carta de 10 de setembro pp., temos o prazer de enviar, complementando as informações remetidas anexas à nossa carta nº 209/58, de 18 de novembro pp., quadros contendodados mensais sôbre a evolução da situação cambial, monetária e fiscal do Brasil, até outubro último.

ITO

No que se refere ao quadro nº 7 (saldos devedores do principal sôbre créditos concedidos para projetos específicos registrados na SUMOC), cabe-nos informar que serão remetidas informações a respeito tão logo sejam disponíveis.

Atenciosas saudações,

DEPARTAMENTO ECONOMICO
Divisão de Assuntos Internacionais

Herculano Borges da Fonseca
Chefe do Departamento

Christiano N.Sampaio Vianna
Pelo Chefe da Divisão

Anexo.

December 3, 1958

Dear Herculano:

I wish to acknowledge receipt of your letters of November 13 and 18, DE/DIVIN/Cta.206/58 and DE/DIVIN/Cta.209/58 with data concerning the fiscal, credit and exchange position of Brazil, in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe do Departamento
Superintendencia da Moeda e do Crédito
Rio de Janeiro, Brasil

pms

CENTRAL FILES

127697

RECEIVED
CORRESPONDENCE
SECTION

NOV 26 4 27 PM 1958

INTERNATIONAL
MONETARY
FUND

Superintendência da Moeda e do Crédito

Rio de Janeiro, 18 de novembro de 1958.

DE/DIVIN/Cta.209/58

Mr.
Jorge Del Canto
Director of Western Hemisphere Department
International Monetary Fund
Washington D.C.
U.S.A.

Prezado Senhor,

De acôrdo com os entendimentos mantidos entre o Govêrno brasileiro e o Fundo Monetário Internacional, e em atenção ao solicitado em sua carta de 10 de setembro ppº., temos o prazer de enviar, complementando as informações remetidas anexas à nossa carta nº 188/58, de 21 de outubro ppº., quadros contendo dados mensais sôbre a evolução da situação cambial, monetária e fiscal do Brasil, até setembro último.

No que se refere ao quadro nº 7 (saldos devedores do principal sôbre créditos concedidos para projetos específicos registrados na SUMOC), cabe-nos informar que serão remetidas informações a respeito tão logo sejam disponíveis.

Atenciosas saudações.

DEPARTAMENTO ECONOMICO
Divisão de Assuntos Internacionais

Herculano Borges da Fonseca
Chefe do Departamento

Fernando Bergstein
Chefe da Divisão

Anexos.

OFFICIAL **OUTGOING MESSAGE** **OFFICIAL**

FOR PREPARING OFFICER
- ☐ Night Letter
- ☐ Ordinary
- ☐ Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

6/11

To: Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

No. 12

Reference Fund letter June 3, 1958. Stand-by charge for period ending June 2, 1959 amounting to $46,875 due December 3. Please advise by cable arrangements made for payment.

Test No. INTERFUND

cc: Dep. Mg. Dir.
Mr. Pernambuco
WHD
SEC

Drafted By CBFink/sl
Department Office of the Treasurer
Date December 4/58

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM
Time Received 5:15 PM
Time Dispatched 6:20 PM
Number of Words 27
26429
ALL AMERICA
MW

DO NOT TYPE BELOW THIS LINE

INTERNATIONAL MONETARY FUND

Mr. Bernard

Mr. del Canto –

In view of
recent briefing paper
to Managing Director, I
would not recommend
passing this on beyond
Department.

G. A. Costanzo

Office Memorandum

TO : Mr. C. D. Finch

DATE: December 4, 1958

FROM : G. Escobar GE.

SUBJECT : Brazil--Report for the Week Ended November 28, 1958

The average agio for U.S. dollars fell to Cr$171.9 per U.S. dollar in the week ended November 28, 6.1 per cent below the average of the preceding month, and the lowest level since the beginning of September. According to press reports the free rate appreciated slightly to Cr$135.1 per U.S. dollar, compared to Cr$137.0 per dollar in the preceding week.

The sale of foreign exchange at auction was the same as in preceding weeks.

The issue of currency was unchanged at Cr$115.6 billion, Cr$13.6 billion above the ceiling of Cr$102 billion proposed for December 1958 (see EBS/58/25, Supp. 3).

The Government's cash deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, declined slightly to Cr$27.6 billion in the week ended November 28.1/ Because of large seasonal budgetary expenditures at the end of the year, Treasury borrowing at the Bank of Brazil can be expected to increase further during December. The present level of borrowing exceeds by Cr$7.6 billion, the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by about Cr$5 billion, but during January-September 1958 it has overstated the deficit by about Cr$4.1 billion on the average. The excess of Government borrowing over the cash deficit is composed of Treasury cash, deposits in the regional branches of the Bank of Brazil, and checks in transit.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

		Currency Issue	Government Borrowing[1/]
1957:	December	96.6	36.0
1958:	January	94.0	6.1
	February	94.6	10.9
	March	96.6	13.8
	April	99.1	16.9
	May	101.6	19.6
	June	103.4	22.6
	July	103.4	23.9
	August	104.3	23.2
	September	108.9[2/]	22.7
Week ended:			
	October 4	110.1	25.4
	25	110.4	26.6
	November 1	111.6	25.6
	8	115.4	25.1
	14	115.6	27.4
	22	115.6	28.3
	29	115.6	27.6

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills.

2/ Data for September 27.

Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

		Agio per US$ [1] (Monthly average)	Free Market Rate (end of period)
1957:	December	66.8	90.5
1958:	January	96.1	97.5
	February	113.0	99.5
	March	121.6	106.8
	April	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	August	154.8	159.5
	September	193.1 [2]	156.3
Week ended:			
	October 4	178.8	153.8 [3]
	25	187.6	144.9 [3]
	November 1	183.3	137.0 [3]
	8	192.6	138.9 [3]
	14	182.9	137.0 [3]
	22	183.0	137.0 [3]
	29	171.9	135.1 [3]

1/ For Rio de Janeiro and São Paulo.
2/ Revised.
3/ New York banks' selling prices for cable transfers on Friday of each week.

The Managing Director December 4, 1958

Jorge Del Canto and Irving S. Friedman

Brazil--Brief for Discussions with Minister of Finance

Background

1. On June 3 the Fund entered into a stand-by arrangement with Brazil for one year for net additional purchases of $37.5 million, in consideration of a program detailed in a letter from the then Minister of Finance to the Managing Director. Brazil purchased $37.5 million under this arrangement on June 4. In July Brazil settled a repurchase obligation of $17.25 million and withdrew immediately $17.25 million under the stand-by arrangement. This raised to $54.75 million the gross purchases under the stand-by at which point consultations have to be held before further drawings can be made. A repurchase of $20.25 million is due by the end of December 1958.

2. The program described in the letter of the former Minister of Finance in May 1958 aimed at achieving internal stability by the end of 1958 and an exchange reform to be implemented at a second stage.

3. In July and in connection with a change in Ministers of Finance, Brazil indicated to the Fund that some departures from the program had occurred. In particular, the exchange rate treatment for coffee was varied, provision made for payments on stockpile purchases of coffee, and the estimate of the balance of payments deficit revised upward. The Government reiterated its intention to implement the fiscal and credit policies, undertook a further depreciation of the preferential exchange rates, a reduction in exchange auctioned and agreed to "a complete review of the exchange system" later in the year. These variations were accepted by the Fund.

4. In October some further changes occurred in the exchange system, including a depreciation in the preferential rate for certain imports and other payments to Cr$80 per U.S. dollar and the transfer of some exports to the free market. The staff recommendation to the Board was that no action be taken on these changes until after the staff reported to the Board on its forthcoming visit to Brazil.

Implementation of Stand-by Program

5. The basic plan of action to attain internal stability and then to reform the exchange system has not been implemented for most of the quantitative undertakings on internal finance have been departed from substantially, while no comprehensive exchange reform is now possible. Exact and up to date figures are not available, as reporting from Brazil has been sketchy, but sufficient data are available to indicate the general order

of magnitude of the departures.

a. The currency issue target was Cr$102 billion at the end of the year. On November 22 the issue stood at Cr$115.6 billion.

b. Government borrowing from all sources was not to exceed Cr$20 billion in 1958. On November 22 the Government borrowing as shown by the Treasury position with the Bank of Brazil plus the issue of Treasury bills amounted to Cr$28.3 billion.

c. The Bank of Brazil's credit to the private non-banking sector was not to exceed Cr$96.4 billion. By the end of September, the latest date for which information is available, reached Cr$110.5 billion.

d. Rediscounts to the private banks were not to exceed the level of the corresponding month of 1957. In September 1958 these rediscounts amounted to Cr$17.5 billion compared with Cr$14.1 billion in September 1957.

e. The agio account was not to be used for purposes other than coffee financing. In the three-month period June-August Cr$3.4 billion was used for other purposes.

f. Finally, the undertaking to obtain fiscal balance in 1959 has been abandoned. The original budget submitted to Congress contained a Cr$10 billion deficit. It has been varied by additions to expenditures and reductions in taxes and it is now estimated to imply a deficit of at least Cr$35 billion, a substantial portion of which is due to a 30 per cent increase in wages planned for January 1.

Implementation of Revised Government Program

6. In October, 1958, the Government submitted a stabilization program to Congress which contained monetary and fiscal measures for the last four months of 1958 and calendar 1959 differing from the program submitted to the Fund in June. The new program aimed at reducing the rate of inflation to 10 per cent in 1959, as contrasted with the goal of stability in the June program. This new program itself has, however, already been subject to substantial departures. An index of the departures is provided by the currency issue. Under the program this was to be reduced slightly from Cr$109 billion in September 1958 to Cr$107 billion at the end of December 1958. Actually currency issue has increased to Cr$115.6 billion by November 22, about Cr$7 billion above the level planned for that time. The budget deficit for 1959, programmed in this plan at Cr$10 billion has been increased, as mentioned above, to at least Cr$35 billion, on recent estimates.

External Payments Situation

7. Under the impact of the weak internal policies and falling coffee prices the balance of payments position of Brazil has continued to be precarious. The Brazilian authorities estimated in May 1958 that the deficit in dollars and ACL currencies would amount to $200 million. In July, this estimate was increased to $330 million and in practice may be running a little higher. At

present it is understood (although we have no direct reports from Brazil) that the gross dollar reserves are almost exhausted and that about $55 million remain in unutilized lines of credit. As this is relatively a favorable period and as the credits are 90-day advances with a restriction on continuous use, the reserve position is weak. Coffee prices are currently about 20 per cent below those prevailing a year ago, although currently the price is relatively stable.

Subjects for Discussion

8. The principal subject for discussion with the Brazilian Minister of Finance relates to a repurchase obligation of $20.25 million maturing by the end of this month and a drawing by Brazil of an equivalent amount under the existing stand-by arrangement. Brazil's reserve position is such that it probably would not be able to make the $20.25 million repurchase unless it has an assurance that it can draw the remaining $20.25 million under the stand-by. The stand-by arrangement, however, provides that Brazil can draw the last $20.25 million under the stand-by only after consultation with the Fund and agreement on terms for such drawings. This would involve a paper to the Board reporting on Brazil's performance under the stand-by stabilization program. In view of the wide departures from the program as indicated above, it would be very difficult for the staff to make a favorable recommendation to the Board.

9. The staff believes that an alternative procedure should be adopted involving the postponement of the repurchase obligation of Brazil until, let us say, May 15. The advantages of this procedure are seen as the following:

a. Because of the departures from the program submitted to the Fund it is undesirable that further drawings be permitted. It seems virtually impossible to obtain any meaningful changes in policy at this time. On the other hand, the acceptance of wide departures would increase the problems of obtaining compliance in other countries and would suggest that commitments to the Fund are only a matter of form.

b. On the other hand, it is clear that Brazil is in payments difficulties. It would be difficult for them to provide $20.25 million from current reserves for a repurchase at this time. It is, therefore, reasonable that the Fund assist them by a short postponement.

c. Postponement to May would keep the possibility of rolling over the obligation within this stand-by while providing the maximum advantage for a negotiation in April and May on a stabilization program, including an exchange reform.

10. The Brazilian authorities in July undertook to make a complete review of the exchange system late in 1958. The Fund has an interest in emphasizing the importance attached to this review. However, the staff does not judge that this is a suitable time to press the authorities strongly on this matter. It is believed that discussions in April and May would be more likely to achieve action. It is felt desirable that the Minister be informed of our intention to have a comprehensive review of the exchange system at that time, including the problem of bilateral currencies and payments agreements. It could also be the occasion for fulfilling Brazil's Article XIV consultation obligation for the current year.

Dec. 3, 1958

Mr. H. Merle Cochran

Jorge Del Canto

We expect to give you a briefing for Brazil not later than tomorrow morning. A full and lengthy review is available, but I rather not burden you with it.

I understand Mr. Paranagua secured two appointments for the Minister, one at 4 PM Friday December 5, and another at 4 PM Monday December 8. Of course, it will be up to Mr. Jacobsson and yourself as to whether the staff should participate in these meetings. In any case, we might wish to have technical discussions with Roberto Campos.

You might wish to consider suggesting to Mr. Jacobsson a luncheon for the Minister either Friday or Monday, since he is making the effort to come to see us, as requested.

JDelCanto:arb

INTERNATIONAL MONETARY FUND

December 1, 1958

TO : Mr. Jorge Del Canto

FROM : B. Brovedani

This is a preliminary draft of a paper on the Brazilian stabilization plan which was requested prior to the discussions.

cc: Mr. Costanzo
Mr. Finch

Brazil: Recent Economic Developments and the Stabilization Plan

Introduction

This paper reviews economic trends in the Brazilian economy in the recent period and highlights the program of economic stabilization elaborated by the Brazilian Government in October 1958 and recently sent to Congress for approval, as a basis for the planned discussions with the Brazilian authorities. The economic review of this paper is intended to permit a better understanding of the general aims of the plan, and of the method of implementation.

The stabilization program places certain limits on the monetary and credit expansion for 1958 and 1959 and recommends the adoption of certain policies in the fiscal sector and in the establishment of minimum wages which are deemed consistent with the general target of the plan, which is to achieve a gradual slowing down of the rate of inflation in 1959 and full stability in 1960. Although the 1958 limits allow for a greater monetary expansion than agreed with the Fund at the time of the stand-by arrangement, the plan implies the acceptance by the Brazilian Government of the same strategy in the fight against inflation, based on the establishment of ceilings on monetary expansion and on the adoption of policies consistent with these ceilings.

1. Economic growth, inflation and exchange disequilibrium

The Brazilian economy expanded at a sustained rate in the postwar period, with a growth of real income per head of about 3.5 per cent per

year on the average. The high level of imports required by this sustained rate of growth, could be met through a pronounced improvement in export prices, the utilization of foreign exchange balances, accumulation of arrears and resort to foreign loans and investments. The sharp decline in export receipts during 1957/58, resulting from difficulties relating to coffee exports, is now causing serious strain. It occurs when exchange balances are depleted, and the load of servicing the short-term foreign debt is acquiring large proportions. Furthermore, the reliance of Brazil on imports of fuel and raw materials has added to the rigidity of its external payments position.

The economic growth of recent years took place in a climate of inflation and of credit expansion, with a rate of price rise averaging about 10 per cent per year during 1946-52, and 20 per cent since then. Credit and money supply rose at an even higher rate. The free exchange rate for the dollar, however, fell by only 6 per cent per year during 1953-56. In 1957 and during the current year, the degree of rate depreciation became extremely sharp, as a result of the difficult external payments position. In fact, the free exchange rate, expressed in cruzeiros per dollar, rose by 38 per cent in 1957, and by a further 76 per cent from December 1957 through August 1958. This compares with a rise in prices in Brazil of 20 and 9 per cent respectively.

The rate of growth and the level of investments tended to be higher during 1950-52, when imports were expanding, prices for major exports stable and the rate of inflation less acute. The deficit of the balance

of payments gave rise in that period to the problem of accumulation of arrears with imports maintained at a level about 13 per cent higher than the 1950-57 average.

The period 1953-56 was characterized by the ample fluctuations in the prices of major exports, by lower imports in view of the need to repay the arrears, and by more pronounced rate of inflation. Imports were 9 per cent below the 1950-57 average, and there was a diminution of the rate of growth of real income per capita from 5.7 during 1950-52 to 1.9 per cent. During 1953-56 Brazil made progress in the amortization and refinancing of its foreign debt, and in the reconstitution of its foreign exchange reserves. However, inflationary pressures were more pronounced as indicated by the rate of credit expansion which amounted to about 25 per cent per year. The improvement in the external payments position explains the comparative stability of the exchange rate in the free market. The favorable balances on current transactions in 1955 and 1956 were applied to the repayments of foreign debts arising from the external disequilibrium during 1950-54, and to the reconstitution of foreign exchange balances of the monetary authorities, which rose by $200 million.

During 1957, and to an even greater extent in the current year, Brazil is being faced with a major payments crisis, owing to the deterioration of the position of its main exports in the world market. Annual receipts from exports of coffee, cocoa and cotton declined from about $1,200 million, on an average, during 1953-56 to $960 million in 1957; during the first half of 1958 these exports were moving out at an annual rate of only $758 million.

This drop in receipts from major exports was in part offset by a rise of minor exports, primarily of lumber, minerals and sugar, estimated at about $132 million for 1957. Other favorable factors in 1957 and 1958 were the expansion in foreign investments, resulting from the measures taken by the Brazilian Government in 1955, and the increase in foreign lending, chiefly in the form of suppliers credits. However, the payments difficulties appear particularly serious considering the increasing burden of the foreign debt, the practical exhaustion of foreign exchange balances, and the rigidity of certain payments of basic imports of fuel and of food.

At present Brazil is faced with a major exchange crisis, with internal inflation and a sharp depreciation of the exchange rate. Inflationary pressures have continued at approximately the same rate as in the recent past. The rise in real per capita income also continued, and for 1957 is estimated at about 5.5 per cent compared with 4.3 per cent per year on the average during 1953-56.

The 1957 exchange deficit is estimated at $183 million. Foreign exchange balances were drawn down and short-term loans obtained to finance the payments gap which rose to an estimated $170 million in the first half of 1958. During the second half of 1958, the current payments position has been improving, but some short-term balance of payments loans are falling due. The expected 1958 payments gap was recently estimated at about $370 million.

The chief elements in the Brazilian inflationary situation result from the need of financing the excess coffee production, the ambitious plan of basic investment target for economic development, the expected pressure for a substantial increase of the minimum wage level and from the multiple exchange rate structure.

There was a large increase in coffee production in Brazil in the 1957-58 and 1958-59 agricultural years. Exportable production amounted to an estimated 20.5 and 27.2 million bags respectively. Exports amounted to only 13.6 million bags during the 1957-58 agricultural year. They are expected to be at about the same level in the current fiscal year. The cost of the coffee program for July 1958 to June 1959 is estimated at Cr$9.2 billion compared with Cr$21.4 billion in 1957-58. The Government has also pledged to buy in July 1959 any shortfall of coffee exports below the 16 million bags target. The international coffee market is characterized by conditions of oversupply, and the major producing countries are engaged in an attempt at price defense.

Furthermore, the Brazilian Government is pursuing certain targets of economic development, with a schedule of annual investments of about 5 per cent of gross national product. Investments are particularly heavy in 1958 and 1959 at 7.6 and 6.6 per cent of gross national product respectively, in the basic sectors of energy, transportation and heavy industry. The Federal Government is to finance only about 40 per cent of the total investments required by the plan and only one half of this is entered in the central budget. The other half is financed by earmarked taxes. Although the amount of investment required by the plan is well within the country's ability to save, the program has stimulated investments in related sectors, and was responsible for the recent acceleration of inflation.

The price level rose 12.5 per cent in 1957 and continued to increase sharply during 1958. In September the cost of living in the Federal District was 422 (1948 = 100), 11.6 per cent higher than at the end of last year, compared with a rise of 9.8 per cent during the first nine months of 1958.

The last adjustment of minimum wages was effected in 1956 when they were, in real terms, 57 per cent above the 1950 level. As a result of price rises, real minimum wages fell to a level 10 per cent higher than in 1950. An adjustment of minimum wages seems now unavoidable. On the assumption that this adjustment restores the 1956 position in real terms it should amount to about 37 per cent. This adjustment of minimum wages is expected in the light of previous experience, to be diffused throughout the wage and price systems.

2. The stabilization program[1/]

A program of monetary stabilization was recently prepared by the Brazilian Government and sent to Congress for approval. It proposes the adoption of limits and targets in credit and budgetary policies, and the adherence to certain principles in related economic policies. During the initial period ending in 1959, inflation is to be slowed down to a maximum rate of about 10 per cent; later there will be full stability of prices, wages and money supply.

This stabilization effort stems from the conviction of the Brazilian authorities that monetary stability is essential for an orderly process of growth and from the admission that the Brazilian plan for developmental investment target was in the past associated with monetary expansion and inflation.

It is observed that monetary expansion should not exceed the rate of real growth. The Government's consumption expenditures should be reduced to increase resources for a well-conceived program of public investment; profits from the exchange system should be exclusively devoted to the financing of the coffee program. Wages should be

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1/ A summary of the stabilization plan is attached as an appendix to the present paper.

initially adjusted in order to restore their purchasing power of 1956, but, later, adjustments should be granted only when productivity rises. Exports and the inflow of foreign capital should be stimulated to achieve equilibrium in the balance of payments.

The adoption of this program is not inconsistent with the achievement of the basic investment targets of the Government. On the contrary, it is believed that this investment program is more likely to succeed in a climate of monetary stability.

Multiple targets and limits in the basic sectors of credit, public finance and wages are the essential features of the plan. The expansion of currency issue and of money supply is limited to certain maxima in 1958 and to 10 per cent in 1959. This expansion is considered necessary if wages are to be adjusted without generating unemployment. Limits on rediscounts and loans of the Bank of Brazil are established at levels supposedly consistent with the above-mentioned targets; and the same is done for the credit expansion of commercial banks. The program puts strict limits on budgetary expenditures for 1959 and provides for an increase in taxation.

The 1959 adjustment of minimum wages should not exceed what is necessary to restore the purchasing power of minimum wages to the level of 1956, when the last adjustment was granted. After this initial adjustment, wages will be increased only to reflect an increase in productivity.

To restore equilibrium in the balance of payments, the plan relies primarily on the stimulation of exports and of foreign capital inflow, mainly by the gradual elimination of the multiple exchange rate policies of Brazil.

3. Major trends and the plan's targets

a. The external payments gap in 1958. The Brazilian authorities expected an over-all payments gap in dollar and ACL currencies for 1958 of $330 million, and a "deficit" in a less inclusive definition of $220 million, resulting from estimated export receipts of $988 million, and from payments for imports services and for the amortization of the foreign debt of $1,208 million; repayments of balance of payments loans of short maturity of $110 million should be added to obtain the over-all payments gap of $330 million.

In Table 1 below the estimate of the "deficit", as defined above, for the first half of 1958 are compared with the actual data for the same period, for convertible and ACL currencies.

Table 1. Exchange Transactions in Brazil's Official Market for the First Half of 1958 1/.
(convertible and ACL dollars)

(In millions of U.S. dollars)

	Totals		Convertible Currencies		ACL Currencies	
	Estimated	Actual	Estimated	Actual	Estimated	Actual
Export receipts	460	424	307	279	153	145
Import and service payments	-479	-472	-327	-329	-152	-143
Capital repayments	-106	-112	-70	-72	-36	-40
Totals, net	-125	-160	-90	-122	-35	-38

Source: Data supplied by SUMOC.

1/ Balance of payments loans and repayments are not included.

The payments "deficit" was larger during the first half of 1958 than the Brazilian authorities had estimated last July, by $32 million. The deficit in convertible currencies was $122 million compared with an estimated $90 million.

Table 2 below shows the comparable data on all exchange transactions for recent years. Transactions with the bilateral account area are also included, and the totals for the first half of 1958 are higher than the amounts shown in Table 1. Since, however, transactions with the bilateral account areas are roughly balanced, the deficit for the first half of 1958 is only $10 million higher than in Table 1. (Actual results.)

Table 2. Actual Receipts and Payments (-) in Brazil's Official Market
(All currencies)

(In millions of U.S. dollars)

	1956	1957	1958 1/ (Estimated)	First half 1957	First half 1958
A. Export receipts	1,452	1,366	1,209	614	565
B. Import payments	-1,124	-1,214	-1,214	-621	-558
C. Services, net	-118	-140	-140	-76	-45
D. Capital repayments 2/	-142	-195	-195	-86	-132
Totals, net	-168	-183	-222	-169	-170

Source: Data supplied by SUMOC.
1/ IV quarter estimated equal to III quarter.
2/ Balance of payments loans are excluded.

The "deficit" amounted to $183 million in 1957, with the bulk occurring in the first half ($169 million), and to $170 million during the first half of 1958. During the second half of 1957 the payments position improved, thanks to an increase in exports and a reduction in payments.

The deterioration in 1958 compared with 1957 resulted from a decline in coffee export receipts of $66 million, largely offset by an increase in receipts from minor exports, and by a reduction of $63 million in imports payments through the auction market ($20 million) and through the preferential market. Payments for services declined from $76 million in 1957 to $45 million in 1958, but the disequilibrium mostly resulted from the large capital repayments effected in the first half of 1958 for $132 million, compared with $86 million during the first half of 1957. The burden of the repayments of the short-term debt, and of suppliers' credits is increasingly felt, even disregarding the shorter maturities classified as balance of payments loans (IMF, Eximbank, SWAP, etc.).

For the second half of 1958 the Brazilian authorities estimated a "deficit" of $94 million, of which $71 million is in convertible currencies and $23 million in ACL currencies (see Table 3 below). If the actual deficit for the first half is added to the estimated "deficit" of the second half, the over-all deficit for 1958 can now be placed at $264 million compared with an original estimate of $220 million.

It is doubtful whether the export target of $528 million for the second half of 1958, in convertible and ACL currencies, can be attained in the light of recent trends. Assuming exports to the bilateral currency area at the same level as in the first half of 1958, this is equivalent to a total value of exports of $670 million in the second half of 1958, compared with $565 million during the first half of the year.

Table 3. Estimate of Brazil's Exchange Transactions for the Second Half of 1958 1/

(In millions of U.S. dollars)

	Totals	Actual Trends 2/	Convertible Currency	Actual Trends 2/	ACL Currency	Actual Trends 2/
Exports	528	449	360	280	168	169
Imports and services	-426	-413	-366	-305	-160	108
Capital, net	-96	-115	-65	-73	-31	-42
Total	-94	-79	-71	-98	-23	+19

Source: Data supplied by SUMOC.

1/ Only convertible and ACL currencies.
2/ On the basis of data for June-September.

During July-September 1958 coffee exports amounted to about 2.7 million bags. They were flowing out at the same rate as in the first half of the year, when about 5.3 million bags were exported. However, the volume of coffee exports tended to increase in September, and the conclusion of the coffee agreement of Latin American producers may warrant the expectation that an export quantum of perhaps more than 1 million bags per month may be maintained throughout the end of the year. Thus, the quantum of coffee exports should, in the second half of 1958, be somewhat higher than during the first half, an improvement which is in large part offset by the decline in average prices from about $62 per bag during the first half of the year, to about $53 per bag in July and more recent months. Most other exports should increase seasonally during the second half of the year, thus pointing to a moderate rise in export receipts during the second half of 1958, although it will still be difficult for the export target of about $670 million

to be attained. If exports should fall short of this amount, the estimated deficit of $264 million would be correspondingly exceeded.

Table 4 below indicates the manner in which the payments "deficits" were financed in 1957 and during the first half of 1958.

Table 4. Financing of the External Payment Deficit

(In millions of U.S. dollars)

	1957	First half 1958
Drawings on IMF	37.3	37.5
Use of foreign exchange	87.0	54.0
Foreign loans	16.0	69.0
SWAP	/9.0	-10.0
Other	33.5	20.0
Total deficit	183.0	170.0

Source: Data supplied by SUMOC.

The IMF provided $37.5 million in 1957 and during the first half of 1958; foreign exchange balances in dollars and other currencies were utilized to the extent of $87 million in 1957, and $54 million during the first half of 1958. Brazil drew on the lines of credit opened by commercial banks in New York for $60 million in 1957, and $69 million during the first half of 1958. SWAP transactions and short-term loans from European countries were also used.

The over-all gap in the balance of payments for 1958, estimated at $330 million, would increase to an estimated $368 million, if the actual results for the first half of the year, rather than the estimates, are taken into account.

In August 1958, Brazil obtained a loan of $100 million from the Eximbank, repayable with three years of grace and five years of amortization during 1961-65. The first tranche of $40 million was drawn immediately to help reconstitute the lines of credit to the United States, while the remaining $60 million was to be drawn down at the rate of $15 million monthly, during September-December 1958. Furthermore, the Brazilian Government obtained an additional loan of $58 million from private U.S. banks for a period of about three years. Part of this money will be applied to restoration of lines of credit with the U.S. banks.

The estimated over-all payments gap for 1958 of $368 million is arrived at as follows:

Table 5. Balance of Payments Gap for 1958

(In millions of U.S. dollars)

	First half (Actual)	Second half (Estimated)	Total (Partly Estimated)
Current Items			
(a) Current receipts	424	528	952
(b) Current payments	-472	-426	-898
(c) Capital	-112	-96	-208
Net	-160	-94	-254
Balance of Payment Items			
(a) IMF repurchase	-22.8	-37.5	-37.5
(b) Eximbank repayments	-21.5	-22.8	-45.6
(c) SWAP	-1.8	--	-21.5
(d) Commercial arrears	--	-8.4	-10.2
Over-all payments gap	-206.1	-162.7	-368.8

Source: Data supplied by SUMOC.

The following table indicates the probable sources of financing.

Table 6. Financing of the 1958 Payments Deficit

(In millions of U.S. dollars)

1.	Eximbank (loan of August 1958)	100.00
2.	Loans of commercial banks (August 1958)	58.00
3.	U.S. banks, lines of credit	16.5
4.	Cash balances	54.0
5.	IMF (including refinancing)1/	75.0
	Total	303.5

Source: Data supplied by SUMOC.

1/ Assuming that the stand-by can be used to refinance repurchase.

There would remain a deficit of about $65 million, for which no financing appears to have been found, which would increase if the export targets for the second half of the year are not attained. Lines of credit with New York banks would be available for a total amount of short-term credit of an estimated $

Measures taken in October 1958 which shifted to the free market a large number of minor exports are expected to result in a further decline of export receipts in the official market and in an increase of the deficit.

At the end of June 1958 the international monetary reserves available to the Brazilian monetary authorities consisted of $325 million in gold, about $200 million of which is pledged as a collateral for a loan, of $115 million of bilateral balances and ACL currencies, and of $5 million in dollars.

Table 7 below indicates the extent of the decline in gross monetary reserves in recent years.

Table 7. Gross International Reserves[1/]

(In millions of U.S. dollars)

	1953	1954	1955	1956	1957 I	1957 II	1957 III	1957 IV	1958 I	1958 II
Gross International Reserves	603	479	484	611	573	448	442	474	363	445
Gold holdings	321	321	323	323	324	324	324	324	324	325
Foreign Exchange Assets	282	158	161	288	249	124	118	150	39	120
U.S. dollars[2/]	--	38	30	101	98	24	9	25	6	5
Other	--	120	131	187	51	100	109	125	33	115

Source: Data supplied by SUMOC.

1/ End of period data.
2/ Includes a small amount of Swiss francs.

b. The stabilization program does not recommend specific measures to avert the dangerous disequilibrium in the balance of payments. The depreciation of preferential import rates of October 1958 was not of such an extent that it was necessary to reduce import demand in this sector.

On the one hand there has been no basic improvement in the external position of Brazil to warrant the expectation that the size of the deficit will be reduced in 1959. On the other hand, the ability of Brazil to finance a deficit of a large magnitude is less, since exchange reserves and foreign lines of credit are almost exhausted.

The stabilization program observes that exports should be stimulated with an appropriate exchange rate policy and that the policy of subsidizing imports through preferential rates should be gradually abandoned.

The gradual elimination of exchange subsidies is to be accomplished in such a way as to eliminate the artificial stimulus which is given to certain imported goods, and discourage foreign loans for investments, the productivity of which is reasonable only because of the low prices of imported equipment. Subsidies which are considered necessary are to be financed with budget revenues, rather than through special taxes on the export sector.

In addition, the stabilization plan states that new authorizations of suppliers' credits will be limited to the amount of repayments and cancellation of the principal. In view of the large volume of obligations already assumed for the next three years, it is urged that any new suppliers' credits should mature after at least three years.

With regard to foreign loans, it is recommended in the stabilization plan that any projects for economic development which need a large amount of capital for an extended period of time should be subordinated to the availability of long-term foreign loans and may not be financed through short-term foreign loans.

4. Deterioration in the current fiscal position

a. The most pressing problem confronting the Government is to arrest deficit financing, one of the main causes of the inflation. Tax revenues appear to be inadequate to finance the large public investment program and the growing level of public expenditures.

Budget receipts for 1958 were estimated in January at Cr$130 billion, but were subsequently revised to Cr$117.4 billion on the basis of data available up to April. In the stand-by letter of May (EBS/58/25, Supp. 3) total revenues were estimated at Cr$115 billion.1/

Cash expenditures for 1958 were estimated at Cr$150.2 billion in the January budget, but were subsequently revised downward to Cr$135 billion in May.2/

Expenditure data are available only until May. Budgetary expenditures were Cr$42.8 billion, and extrabudgetary expenditures were Cr$4.5 billion in the first five months of 1958. Budgetary expenditures show a strong seasonal change, with a peak in December.

The cash deficit was to be limited to Cr$20 billion in 1958, according to the stand-by letter. The deficit rose to a peak of Cr$20.3 billion in July, but has declined slightly to Cr$19.9 billion in September.

1/ Revenues exhibit strong seasonal fluctuations, with peaks in October or November of each year. On the average in the last three years slightly more than one fourth of the annual tax revenues have been collected in the first five months of the year. On this basis budgetary receipts in the first five months of this year were at an annual rate of Cr$122.6 billion, Cr$7.6 billion less than the estimate of Cr$130 billion, but considerably more than is indicated in the stand-by letter.

2/ Estimate in stand-by letter, EBS/58/25, Supp. 3.

The deficit up to September has been financed by borrowing Cr$8.1 billion from the Bank of Brazil and issuing Cr$11.9 billion in Treasury notes. Because of seasonal factors, the deficit can be expected to increase further during the remainder of the year. (In 1957 deficit financing by the Bank of Brazil amounted to about Cr$23 billion in the last quarter of the year.) Thus, it appears difficult to limit the deficit for 1958 to Cr$20 billion.

b. The Brazilian stabilization plan relies heavily on a budgetary economy drive and on an effort to increase taxation for the limitation of monetary expansion during the last quarter of 1958 and during 1959.

The ceiling on net indebtedness of the Federal Government to the Bank of Brazil for December 1958 is Cr$114.1 billion, compared with an amount of Cr$113.7 outstanding at the end of September. If this ceiling is complied with the total budgetary deficit for 1958 should not be much in excess of the Cr$20 billion maximum mentioned above.

The plan does not envisage any special measure to confine the expansion of loans to the Treasury during the last quarter of 1958 to the prescribed narrow limits of less than Cr$500 million. In the light of the experience of previous years this is particularly difficult to achieve during the month of December when Treasury cash expenditures normally reach a peak.

The stabilization plan includes certain budgetary targets for 1959, which are as follows:

1.	Total budgeted expenditures	Cr$135 billion
2.	Extrabudgetary expenditures (arrears, special funds, other expenditures, and disbursements to states and municipalities)	15 billion
3.	Expenditures relating to salary adjustment of public employees and reclassification of jobs	8 billion
	Total	Cr$158 billion

The stabilization program estimates that cash receipts for 1959 will be Cr$148 billion, as follows:

1.	Based on the present tax structure	Cr$135 billion
2.	Expected yield for increased income tax receipts	5 billion
3.	Expected yield from excise and stamp tax receipts	7.5 billion
	Total	Cr$148 billion

The deficit for 1959 is expected to be Cr$10 billion, to be financed by borrowing from the Bank of Brazil Cr$4 billion and by issuing Treasury bills amounting to Cr$6 billion. The ceiling on Treasury borrowing from the Central Bank and from commercial banks in 1959 is established in a manner consistent with a deficit of this size with its normal seasonal pattern.

The plan also lays down certain fundamental principles to be adopted in the policies of the Federal Government and of its agencies.

The most important considerations are: (i) extrabudgetary expenditures should be financed from additional resources; (ii) exchange profits should be applied exclusively to the financing of export premiums, coffee inventories and of other projects specified by the law; (iii) the share of public expenditures applied to capital investments

should be increased; (iv) civil service jobs should be reclassified and salaries adjusted by the rise in living costs; (v) the deficit of state enterprises should be reduced by the adoption of proper pricing policies; and (vi) the structure of stamp, income and excise taxation should be reformed with a view to increasing their yield and to improving the distribution of the tax burden. Official entities which are running a deficit and sell their services to the public are expected to increase the prices of their services during 1959 in order to reduce their operating deficit. Official entities which do not sell their services to the public are expected to reduce costs so as to reduce their deficit. It is also recommended that if an official entity raises the salaries of its employees, it shall also increase the prices of its services in such a way as to cover the increased expenditures.

5. The monetary expansion

a. During 1958 the rate of expansion of currency issue (notes in circulation with the public and banks) continued high; the total quantum of money supply grew at an even higher rate. In each quarter of 1958, the rate of expansion of monetary issue was more than in the comparable 1957 quarter. In the second quarter of 1958 currency issue grew by 6.6 per cent, compared with 4 per cent last year, and it appears from preliminary data that the expansion in the third quarter reached 5.3 per cent, compared with 5.2 per cent last year.

Table 8. Rate of Increase of Currency Issue and of Money Supply

(In percentages)

	Issue		Money supply	
	1957	1958	1957	1958
First quarter	-0.6	0.1	+2.9	4.4
Second auarter	4.0	6.6	5.3	6.3
Third quarter	5.2	5.3	7.9	--
Fourth quarter	9.7	--	14.5	--
Full year	19.6		33.9	

Source: Data supplied by SUMOC.

The growth of money supply was generally at a higher rate than that of issue and the ratio of deposits to money supply increased. During the first quarter of 1958 for instance, currency issue rose by only 0.1 per cent, and money supply by more than 4.0 per cent; the fact that commercial banks often hold large excess reserves which are used during certain periods of the year, explains this difference in trends.

The main factors for the increase of currency issue were (1) Central Bank's lending to the Treasury, (2) financing of excess coffee production, and (3) lending of the Bank of Brazil to the private sector, as shown in Table 9 below.

Table 9. Analysis of the Balance Sheet of Monetary Authorities

(Changes expressed as percentages of total currency issue of previous quarter)

	1957				1958		
	I	II	III	IV	I	II	III
1. Loans to Treasury (net)	6.7	6.6	6.5	26.0	-1.6	6.6	3.8
2. Coffee financing	0.1	1.2	4.8	7.3	7.3	4.1	6.3
3. Lending to private sector	1.1	6.3	9.2	3.5	2.2	7.7	8.9
Totals	7.9	14.1	20.5	36.8	7.9	18.4	19.0
4. Foreign sector	-5.3	-11.5	-5.1	-0.5	-10.1	-6.6	-10.9
5. All others	0.3	1.2	-0.1	-4.3	-3.8	-3.4	n.a.
Total, nonbanks	⁄2.9	⁄3.8	⁄15.3	⁄32.0	-6.0	8.4	n.a.
6. Banks	-2.4	2.0	-3.6	-17.7	⁄7.5	0.7	1.7
Total	0.5	5.8	11.7	14.3	1.5	9.1	6.2
Currency issue	-0.6	4.0	5.2	9.7	0.1	6.6	7.9
Monetary deposits	1.1	1.8	6.5	4.6	1.4	2.5	2.6

Source: Data supplied by SUMOC.

(1) During each of the first three quarters of 1957, deficit financing was responsible for an expansion of issue of 6 per cent; this factor of expansion rose to 26 per cent in the fourth quarter. During the first quarter of 1958 the Treasury could reduce its debt with the Bank of Brazil because of the flotation of Treasury bills to commercial banks. In the second quarter the inflationary impact was about the same as during the second quarter last year. The inflationary impact for the third quarter amounted to 3.8 per cent of issue.

(2) In 1957 coffee financing became one of the major expansionary factors. The increase of the coffee crop and the reduced exports resulted in the accumulation of unsold inventories which required some form of financing.

The 1957-58 coffee crop amounted to 21 million bags, with a total value in cruzeiros estimated at Cr$48.6 billion. The current crop is now estimated at 26.8 million bags, with a total value of Cr$51 billion. The purchase prices for the excess production (40 per cent) are now lower than for the previous crop. Also, the decline in foreign prices was offset by a devaluation of the exchange rate. The total value to the producers of the current crop is about 5 per cent higher than for 1957-58. Considering the increase in domestic prices (about 20 per cent) this will imply a slight reduction in real income from coffee. These estimates assume exports equivalent to 16 million bags. If they fall short of this, the Brazilian Government is to purchase the short-fall at the end of the crop year in July 1959, at prevailing export prices.

Table 9 shows the increase of this inflationary factor towards the end of 1957, and during the first quarter of 1958, when its inflationary effect was equivalent to 7.2 per cent of currency issue. Most of the purchases of the 1958-59 surplus will be effected during the latter part of 1958, and no decline in the inflationary impact of this factor can reasonably be expected. The total net cost of surplus purchases in 1958 are estimated at Cr$9.2 billion; Cr$4.2 billion are to be spent on the purchase of what is left of the 1957-58 crop. The cost of the program amounted to Cr$6.3 billion during the third quarter of 1958.

(3) Lending by the Bank of Brazil to the private sector is, normally, another important factor of expansion. Seasonally, it reaches a peak during the third quarter of each year. In the second quarter of 1958 the growth of this lending, expressed as a percentage of monetary issue, amounted to 7.7 per cent, compared with 6.3 per cent in the second quarter last year. In the third quarter it amounted to 8.9 per cent of issue. Seasonality is most pronounced in lending for trade purposes, and is linked with the need for financing the coffee export trade, particularly for the period between harvesting and exports.

(4) The effective contractionary factor was the external payments deficit, and the exchange profits. The spread between average selling and buying rates is substantial and generally increases with inflation because the exchange rate in the auction market falls rapidly. The major determining factors are the exchange rate structure, the level of the auction rates, and the size of the deficit. As a percentage of the currency issue, the deflationary impact amounted in the second quarter of 1957 and in the first quarter of 1958 to 11.5 and 10 per cent respectively. The impact was less in the second quarter of 1958 due to the increase in exports, and the reduction in the deficit; it amounted to 10.9 per cent in the third quarter.

Lending by the Bank of Brazil to the private sector increased from Cr$91.8 billion in December 1957 to Cr$101.5 billion in July 1958 and to Cr$110.5 billion in September 1958. Rediscounts to banks (see Table 11) were at Cr$13.6 billion in June 1958, compared with Cr$12.7 billion in June 1957 and rose to Cr$17.5 billion by September 1958.

Commercial bank deposits normally reach a peak by the end of the year, when commercial banks accumulate excess reserves. The Brazilian authorities had intended, at the time of the stand-by, to reduce available banks reserves by increasing the legal reserve ratios. However, this measure, which requires Congressional approval, has not yet been taken. The existence of excess reserves of commercial banks reduces the degree of control of the monetary authorities on the monetary situation. Total bank deposits increased from Cr$21.2 billion in the first quarter of 1957, to Cr$38.8 billion in the last quarter; in July 1958 they amounted to Cr$33.1 billion.

(5) The following table shows the consolidated balance sheets of the commercial banks. The major increases occurred in loans to the private sector which rose from Cr$162.7 billion to Cr$184.4 billion in June 1958 and to Cr$192.6 billion by the end of September 1958. Loans to the private sector increased 11.5 per cent in the first three quarters of 1958, compared to an increase of 18.4 per cent in the first three quarters of last year. Net claims on the Treasury rose sharply in the first semester of 1958, and demand deposits of commercial banks rose from Cr$175.4 billion at the end of last year to Cr$200.6 billion in June 1958. By the end of September 1958 demand deposits had increased to Cr$210.1 billion, 20 per cent above the end of 1957.

Table 10. Analysis of the Balance Sheet of the Commercial Banks[1]

(In billions of cruzeiros)

	1957				1958		
	I	II	III	IV	I	II	III
Loans to Treasury (net)	0.3	2.1	1.5	-0.2	10.1	10.6	n.a.
Other Government[2]	1.7	1.7	2.0	2.5	2.6	3.6	n.a.
Private sector[3]	116.0	123.1	130.5	141.0	148.7	159.5	164.5
Unclassified (net)	-5.4	-6.2	-8.2	-8.0	-8.3	-7.4	n.a.
Total	112.6	120.7	125.8	135.3	154.1	166.9	n.a.
Reserves (net)	19.1	19.2	23.0	40.1	33.5	33.8	31.3[4]
Demand deposits	-131.6	-139.9	-148.8	-175.4	-187.6	-200.6	-210.1

Source: SUMOC, Boletim.

1/ End of quarter data. Minus sign indicates net liabilities; plus sign, net assets.
2/ States and municipalities and official entities.
3/ Loans less time deposits.
4/ Provisional.

(b) The stabilization program for 1959 adopts a target for the expansion in money supply of 10 per cent over the level of December 1958, which is considered consistent with the contemplated increases in wages. The assumption is made that the ratio of currency issue to money supply will remain unchanged and currency issue is subject to an equivalent ceiling of 10 per cent. On the basis of these ceilings and of certain normal relationships such as the cash preference ratio and the banks' cash ratios, an estimate is made of the expansion of loans of the Central Bank and the commercial banks which is consistent with this target (see Table 11). An estimate of the behavior of independent variables is also provided (including the profit on exchange transactions, net of the amounts required for the coffee financing program) and the limits are thus set for the Central Bank's credit to commercial banks.

Table 11. Major Monetary Targets of the Stabilization Plan

(In billions of cruzeiros)

	Dec. 1958	Dec. 1959	% Change in 1959
Currency issue	107.4	117.9	10.0
Rediscounts to Bank of Brazil	53.7	61.4	20.0
Rediscounts to commercial banks	8.8	11.6	26.7
Loan of Bank of Brazil to the private sector	117.7	136.3	15.8
Loan of Bank of Brazil to the Treasury	114.1	118.1	3.5
Loan of commercial banks to the private sector	193.2	214.9	11.2
Deposit with commercial banks	238.8	261.8	9.6

Source: Stabilization Plan.

Various recommendations of a general character are/including made the adoption of flexible policies with respect to the rediscount rate, the payment by commercial banks of debts in arrear, and the expansion of the market for Treasury bills. An urgent appeal has been made to Congress to authorize an increase of legal reserve ratios of banks. The ceiling on commercial banks lending is of a stand-by character. It is provided that new measures will be adopted if these ceilings should be exceeded.

Considering the normal seasonal fluctuations in the series subject to a ceiling, allowance is made in establishing the monthly ceilings for seasonal factors.

Table 12. Consolidated Balance Sheet for Banks and the Monetary Authorities
Projected Changes for September-December 1958 and for 1959

(In billions of cruzeiros)

	Sept.-Dec. 1958		1959			Sept.-Dec. 1958		1959	
	Monetary Authorities	Commercial Banks	Monetary Authorities	Commercial Banks		Monetary Authorities	Commercial Banks	Monetary Authorities	Commercial Banks
Total Loans	20.6	8.8	22.6	21.7	Agios and bonuses	9.2	—	—	—
Treasury	4.3	—	4.0	6.0	Demand deposits	1.4	7.9	3.7	20.7
Public	16.3	8.8	18.6	15.7	Time deposits	0.3	1.1	0.8	2.9
Discounts of Monetary Authorities to commercial banks	1.7	—	2.9	—	Other obligations	1.0	0.3	2.0	0.5
					Capital accounts	3.5	3.3	5.0	5.0
					Currency in circulation	4.0	—	10.5	—
Other assets	1.5	3.5	2.0	5.5	Currency in hands of public	3.4	—	9.0	—
Reserves of commercial banks	—	1.8	—	4.8	Cash in vault	0.6	—	1.5	—
Cash in vault	—	0.6	—	1.4	Deposits of commercial banks with monetary authorities	1.3	—	3.4	—
Deposits with the monetary authorities	—	1.3	—	3.4					
Exchange accounts	-3.0	—	-2.0	—	Loans of monetary authorities to commercial banks	—	1.7	—	2.9
Total Assets	20.7	14.1	25.5	32.0	Total Liabilities	20.7	14.1	25.5	32.0

Source: The Stabilization Plan.

Office Memorandum

TO : Mr. C. D. Finch

DATE: December 1, 1958

FROM : G. Escobar GE.

SUBJECT : Brazil--Report for the Week Ended November 22, 1958

The average agio for U.S. dollars has fluctuated within a range of about 8 per cent during October and most of November. In the week ended November 22 the average agio, at Cr$183.0 per dollar, was practically unchanged from the preceding week. According to press accounts, the free rate remained at Cr$137.0 per dollar, the same as the week before.

The sale of foreign exchange in the Rio de Janeiro and Sao Paulo auction markets was US$1.7 million and ACL$1.3 million during the week ended November 22. These amounts have been the same as in the preceding eleven weeks.

The currency issue was unchanged at Cr$115.6 billion. The level on November 22 was Cr$13.6 billion above the ceiling of Cr$102 billion proposed for December 1958 (see EBS/58/25, Supp.3).

The Government's cash deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, rose to Cr$28.3 billion in the week ended November 22.1/ Because of seasonal factors, Treasury borrowing at the Bank of Brazil can be expected to increase further in the remainder of the month of November, and during December. The present level of borrowing exceeds by Cr$8.3 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by about Cr$5 billion, but during January-September 1958 it has overstated the deficit by about Cr$4.1 billion on the average. The excess of Government borrowing over the cash deficit is composed of Treasury cash, deposits in the regional branches of the Bank of Brazil, and checks in transit.

Brazil—Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period	Currency Issue	Government Borrowing 1/
1957: December	96.6	36.0
1958: January	94.0	6.1
February	94.6	10.9
March	96.6	13.8
April	99.1	16.9
May	101.6	19.6
June	103.4	22.6
July	103.4	23.9
August	104.3	23.2
September	108.9 2/	22.7
Week ended:		
October 4	110.1	25.4
25	110.4	26.6
November 1	111.6	25.6
8	115.4	25.1
14	115.6	27.4
22	115.6	28.3

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills.
2/ Data for September 27.

Brazil—Exchange Market

(In cruzeiros per U.S. dollar)

		Agio per US$ 1/ (Monthly average)	Free Market Rate (end of period)
1957:	December	66.8	90.5
1958:	January	96.1	97.5
	February	113.0	99.5
	March	121.6	106.8
	April	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	August	154.8	159.5
	September	193.1 2/	156.3
Week ended:			
	October 4	178.8	153.8 3/
	25	187.6	144.9 3/
	November 1	183.3	137.0 3/
	8	192.6	138.9 3/
	14	182.9	137.0 3/
	22	183.0	137.0 3/

1/ For Rio de Janeiro and Sao Paulo.
2/ Revised.
3/ New York banks' selling prices for cable transfers on Friday of each week.

Superintendência da Moeda e do Crédito

Rio de Janeiro, 27 de novembro de 1958.

*Ofício
DE-DIVIN-112/58

Prezado Sr. Per Jacobsson,

Com referência aos dados estatísticos que esta Superintendência deve fornecer periòdicamente a essa Entidade , desejamos levar ao conhecimento de V. Sa. que, pelos motivos apresentados a seguir, infelizmente não nos é possível remeter alguns deles com a periodicidade solicitada.

Especialmente em relação aos dados mensais referentes ao movimento bancário, dispõe a lei brasileira que os estabelecimentos bancários têm prazo de 30 dias para publicar seus balancetes mensais. Isto se justifica devido à amplidão do território brasileiro, conjugada com as dificuldades de comunicação existentes, que torna impossível ao próprio Banco do Brasil preparar seus balancetes mensais em menor prazo. Após a publicação, faz a Superintendência da Moeda e do Crédito as necessárias apurações, elaborando-se em seguida os quadros referidos. Explica-se assim a demora de mês e meio aproximadamente com que fazemos a remessa dêsses informes.

Ao
Ilmo. Sr.
Per Jacobsson
Diretor Gerente do Fundo Monetário Internacional
Washington 25 - D. C.
Estados Unidos da América do Norte

/ASC.

No que tange aos dados referentes ao registro de financiamentos, deverá êste Órgão dentre em breve estar habilitado a enviar os dados solicitados, visto que estamos implantando o sistema de apuração mecânica a êste setor de contas. Juntamos, outrossim, cópia do levantamento da posição em 30.6.58 feito para atender solicitação do Banco Internacional, cujos dados embora não estejam dispostos da forma que melhor convém ao Fundo Monetário, poderão ser úteis aos estudos preliminares.

Ainda a êsse respeito, esclarecemos que é nossa intenção atualizar, ainda no correr do próximo mês de dezembro, os referidos dados, à base do conceito de "suppliers' credits", que vem de ser proposto por nós e aceito pelo Fundo, segundo comunicação feita ao Diretor Executivo, Dr. Octavio Paranaguá, em 17 do corrente.

Entramos novamente em entendimentos com a Carteira de Câmbio do Banco do Brasil sôbre "os haveres em moeda estrangeira". Sentimos, porém, ter de confirmar o informe anterior quanto à impossibilidade material de fornecer os referidos elementos semanalmente. Poderíamos, entretanto, fazê-lo em base mensal. Isto porque só mensalmente recebe o Banco do Brasil os extratos de conta dos banqueiros, necessários a êsse levantamento. A propósito, consultamos V.Sa. se as informações abaixo, que mensalmente enviamos ao EXIMBANK não atenderiam ao desejado pelo Fundo Monetário Internacional:

same stuff we get monthly

1) Disponibilidades em moedas conversíveis Table A
2) Obrigações em moedas conversíveis Tabl B
3) Posição (telegráfica) de câmbio do Banco do Brasil Table C
4) Haveres (líquidos) e obrigações em moedas estrangeiras Table D
5) Ouro e disponibilidades em divisas ✓ Tabl E

Confirmamos outrossim nossa carta DE-DIVIN-... 209/58, de 18.11.58, com a qual remetemos os elementos estatísticos relativos ao movimento bancário do mês de setembro e anexamos nova coleção dos respectivos quadros para atender a qualquer possível extravio. Em meiados de dezembro p.fº. faremos remessa dos dados de outubro.

Aproveitamos o ensejo para reiterar a V.Sa. os nossos protestos de elevada estima e distinta consideração.

Jose Garrido Torres,
Diretor Executivo

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

Vol: Brazil

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK 31289

FILING TIME: 4:25PM November 24, 1958

VIA: WESTERN UNION

Number: 215

HAVE EARMARKED FOR YOUR ACCOUNT 8,243.309 TROY OUNCES OF FINE GOLD

BY ORDER OF BANCO DO BRASIL, S.A.

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

Test number checks:

Approved:

Received in Code Room: 5:30 PM November 24, 1958

File: Brazil

Mr. B. Brovedani — November 21, 1958

G. Escobar

Brazil--Report for the Week Ended November 14, 1958

The average agio for U.S. dollars has continued to fluctuate within a range of about 8 per cent during October and the first part of November. In the week ended November 14 the agio declined to Cr$ 182.9, 5 per cent below the average for the preceding week and 11.5 per cent below the peak of Cr$ 206.6 per dollar attained in first week of September immediately after the 20 per cent reduction in exchange sales which went into effect at that time. According to press accounts, the free rate declined slightly to Cr$ 137.0 per dollar last week.

The sale of foreign exchange in the Rio de Janeiro and Sao Paulo auction markets were US$ 1.7 million and ACL$ 1.3 million during the week ended November 14. These amounts have been the same as in the preceding ten weeks.

The currency issue increased ~~only~~ slightly to Cr$ 115.6 billion, only Cr$ 0.2 billion above the level of the preceding week. The level on November 14 was Cr$ 13.6 billion above the ceiling of Cr$ 102 billion proposed for December 1958 (see EBS/58/25, Sup. 3).

The Government's cash deficit as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, rose to Cr$ 27.4 billion in the week ended November 8.1/ Because of seasonal factors Treasury borrowing at the Bank of Brazil can be expected to increase further in the remainder of the month of November, and during December. The present level of borrowing exceeds by Cr$ 7.4 billion the Government's target to limit borrowing from all sources to Cr$ 20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by about Cr$ 5 billion, but during January-August 1958 it has overstated the deficit by about Cr$ 4.2 billion on the average.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period		Currency Issue	Government Borrowing 1/
1957:	December	96.6	36.0
1958:	January	94.0	6.1
	February	94.6	10.9
	March	96.6	13.8
	April	99.1	16.9
	May	101.6	19.6
	June	103.4	22.6
	July	103.4	23.9
	August	104.3	23.2
	September	108.9 2/	22.7
Week ended:			
	October 4	110.1	25.4
	25	110.4	26.6
	November 1	111.6	25.6
	8	115.4	25.1
	14	115.6	27.4

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills.
2/ Data for September 27.

Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

		Agio per US$1/ (Monthly average)	Free Market Rate (end of period)
1957:	December	66.8	90.5
1958:	January	96.1	97.5
	February	113.0	99.5
	March	121.6	106.8
	April	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	August	134.8	139.5
	September	193.1 2/	156.3
Week ended:			
	October 4	178.8	153.8 3/
	25	187.6	144.9 3/
	November 1	183.3	137.0 3/
	8	192.6	138.9 3/
	14	182.9	137.0 3/

1/ For Rio de Janeiro and Sao Paulo.
2/ Revised.
3/ New York banks' selling prices for cable transfers on Friday of each week.

Confidential

Mr. H. Merle Cochran, Deputy Managing Director — November 19, 1958

J. Del Canto, WHD

Visit of Dr. José Garrido Torres, Executive Director for SUMOC to the International Monetary Fund

Attending:

Brazil	Fund
Dr. O. Paranaguá, Executive Director, International Monetary Fund	Mr. Cochran, Deputy Managing Director
Dr. J. Garrido Torres, Executive Director, SUMOC	Mr. Gold, Legal
	Mr. Del Canto, WHD

Dr. José Garrido Torres was in the United States as guest of the National Foreign Trade Council to attend the 45th Annual Meeting of the National Trade Convention and he also spoke on November 17 at the Luncheon of the Americas. Dr. J. Garrido Torres had become on July 7 Executive Director for SUMOC and was reported to be an influential figure in the new team of Brazilian financial policy makers, headed by the Minister of Finance, Lucas Lopes. Dr. J. Garrido Torres made his official contact with Fund authorities in New Delhi, at the Annual Meeting; together with his colleagues of Delegation and Dr. Paranaguá he visited Mr. Cochran and held about half-an-hour's discussion on Brazilian problems. It was expected then, in the Delhi discussions, that the International Monetary Fund would send a team to Rio in late November in order to review progress under the stand-by and reach agreement on financial policies for 1959, so as to enable Brazil to balance the remainder of the stand-by, $20.5 million, after Brazil had repurchased the same amount in December 1958.

Subsequently to Delhi--and in view of the fact that knowledge has come to us that Minister Lopes hopes to visit the United States in early December (he is scheduled to speak at New York University)--a communication was sent to Rio suggesting that the Minister might wish to visit us at headquarters and undertake this review here in Washington rather than in Rio. This would not preclude a visit of an IMF mission to Rio at a subsequent date.

Mr. Garrido has replied that it was unlikely that the Minister would come to Washington if he came to the United States at all. There was considerable political pressure in Rio and it was dubious that the Minister would live up to his commitment in New York. He asked, through Dr. Paranaguá, for an appointment to see Mr. Cochran at 3.30 p.m., November 18.

At this meeting, after an exchange of courtesies, Mr. Garrido raised the question of whether the Fund was prepared to send a mission to Brazil in late November. Mr. Cochran made a review, summarizing developments along the lines indicated above, and pointed out that, from the IMF's point of view, it was

highly desirable to have policy discussions with Dr. Garrido now and subsequently with Minister Lopes. He stated the obligations that Brazil had assumed under the stand-by and the need to have this review of facts and policies now, before Brazil would draw on the International Monetary Fund, and this was urgent because there existed a repurchase obligation of $20.5 million to be discharged and we understood Brazil could not pay unless it drew on the Fund. Mr. Gold explained further this legal obligation: Brazil had to repurchase in December 1958 regardless of the outcome of these discussions to be held with the Brazilian authorities, but in order to draw the balance of $20.5 million in the stand-by it was essential to have discussions with the staff and agreement by the Board before the end of December.

Mr. Del Canto further elaborated on the Board discussion in June that led to this provision for consultations of the stand-by. He indicated that it was as important to get facts and to have full discussions and agreement on policies. Although some data was lagging--particularly the monetary series--the figures available showed that Brazil had already broken all the ceilings agreed at the time of the stand-by. He said he doubted whether this record would change between now and the end of the year. This raised the practical difficulty, that in the absence of substantive policy discussions, the facts would have to come out with a very critical report on Brazil to the Executive Board, indicating that Brazil has failed to meet its promises made last June, in the letter attached to the stand-by. This was the second time, in the course of a year (the first time was in October 1957, in connection with a drawing for $37.5 million) that Brazil had not lived up to its promises.

Mr. Del Canto added that another problem was the expectation that most of our Executive Board members had developed during the Board discussions on the stand-by in June 1958, that Brazil would undertake a major simplification of the exchange system before the end of 1958. From what we understood of the Minister's ideas--as reflected in a public statement--this was unlikely to happen. Dr. Garrido confirmed that the Minister would not undertake such exchange reform until: (a) they had a better exchange position; and (b) their domestic stabilization program was well under way.

Mr. Peranaguá recognized that the ceilings had been broken, but stated that Brazil had delivered in the exchange field what it had promised, namely shifting upwards imports out of preferential rates and depreciating this rate to Cr$80 per U.S. dollar; this was done ahead of schedule. As to the "expectations" of some European Directors, he did not know on what basis they had formed their hopes. He added that he had carefully sought language that avoided the impression that Brazil has committed itself to a drastic exchange reform. He personally was not in favor of such reform at this stage.

Dr. José Garrido Torres acknowledged that the ceilings agreed under the stand-by had been broken, although he understood the fiscal situation was better than what we thought it was. He wanted us to know that a change of personalities had taken place in July and the present policy makers were not responsible for the failures of the previous Minister of Finance. The new Government would not have subscribed to such rigid ceilings as promised in the stand-by. The new financial authorities believe in the gradual approval to stop the inflation and Dr. Garrido Torres felt they were making progress, in spite of the political difficulties. He illustrated the Minister's intentions by making reference to his stabilization program recently submitted to Congress and the vigorous fight he is putting up with Congress to get his program through. The essence of the program was to reduce the rate of inflation for 1959 to 10 per cent and stop it altogether in 1960. The program was resisted by business circles, because of the higher taxation element of the program, by the private banks because of the credit restrictions (the idea of credit ceilings is embodied in the program) and labor, because of the cost of living impact supplied in the adjustment of transportation rates, public utility rates, etc. There had been social unrest in recent weeks in several major cities of Brazil.

Dr. Garrido Torres wanted to appeal to our appreciation for Brazil's social and political difficulties; any program agreed with the International Monetary Fund should not "kill the patient." The Fund should be guided by our faith in the good intentions and firmness of the new policy-makers, rather than by actual ceilings.

Mr. Cochran said that the Fund had considerable sympathy for Brazil's difficulties. Financial assistance had been granted twice in a year, but it was obvious that the Management would have a difficult problem with the Executive Board, unless full policy discussions and agreement on policies for 1959 was reached, at the highest level. He wanted Dr. Garrido to impress upon the Minister--if he came to the United States--the need for such policy discussions. If, after these talks, there was a need for a mission, staff would go to Brazil. Dr. Garrido Torres agreed to this procedure, but he still felt a mission could perform a useful function in Rio.

Mr. Cochran indicated that while Mr. Garrido Torres was in town he wanted to benefit from technical discussions with him. The staff was available for such discussions. Dr. Garrido agreed to do it, although he was leaving at 7:30 p.m. for New York. He and Mr. Paranagua met with Mr. Del Canto from 5:30 p.m. to 7:00 p.m. to review the figures that the International Monetary Fund uses to follow up financial developments in Brazil under the stand-by. In these discussions, Mr. Garrido understood the significance of our targets better and promised to speed up the sending of this information in order to obtain an improvement on our follow-up. It is hoped that by the time the Minister visits us, we shall have complete data for September and October, and some figures for the end of November. It is doubtful, however, that Brazil's performance will improve between now and the end of the year.

At this technical meeting with Dr. Garrido Torres he inquired about our participation in the Central Bank technical meeting in Rio on November 24. I indicated we were sending two senior officers to represent the Fund, as observers. Dr. Garrido Torres asked me what position they were going to take. I replied that most of us here in the International Monetary Fund had sympathy for the idea of expanding inter-regional trade among the Latin American countries, but we did not see the case for a Latin EPU as one way of expanding such trade. Furthermore,

we were alarmed by the fact that in order to broaden the base of such a payments union, the suggestion had been made that fully convertible countries engage in bilateralism. We would take a firm stand against such pressures. I further added that in my own personal judgment, I did not see how a Latin American EPU could work so long as the cruzeiro and the Argentine peso were weak currencies and the exchange systems of both countries so complex. Furthermore, most of the southern Latin American countries had a large dollar deficit and obviously if you add up a series of deficits, with no creditor countries, the so-called Latin American EPU would fall apart in a few weeks.

Dr. Carrido Torres responded that he fully agreed with me. ECLA had placed too much emphasis on payments arrangements and not on the "real" efforts to achieve a regional market. He himself had championed the idea of a regional market and made reference to this in his speech in New York on Monday, November 17, 1958. He further added that he had discussed those issues with Prebisch and had told him not to place so much hope on a LA-EPU, but rather concentrate on basic work leading to a regional market.

At 7 p.m. Dr. Paranagua and myself took Dr. Carrido Torres to the airport. He expressed appreciation for the time Mr. Cochran had given him and the opportunity to review Brazil with the staff.

cc Mr. Gold

file: Brazil

Mr. J. Del Canto

November 18, 1958

B. Brovedani

Brazil--Flow of Information in Accordance with Stand-by Arrangement

In a letter of June 6 of the Deputy Managing Director to the Minister of Finance of Brazil, information was requested on developments in the exchange, credit and fiscal fields. This information is needed in the preparation of follow-up reports to the Executive Board on the implementation of Brazil's undertakings in accordance with the stand-by arrangement.

Six information items listed in the letter of June 6 were to be remitted by weekly cables; eight items were to be remitted by airmail early each month, as soon as the data were available. The matter of the regular flow of information was taken up with the Brazilian representatives who negotiated the July modifications of the stand-by arrangement. On that occasion it was explained that the monthly information should be remitted as soon as available, without waiting for the full monthly material to be ready.

After an exchange of correspondence early in August between the Deputy Managing Director and the Executive Director of SUMOC, the staff started to receive the information. The weekly cables started to arrive early in September, and the last cable was received on November 13, containing data for the week ending November 8.

The monthly information was remitted twice, in mid-August and mid-September. In both cases the full material was sent in a single package. The data contained in the September information refer to the end of August. After this remittance no other has been effected. This appears to indicate that there has been an interruption in the regular flow in October. Furthermore, data on Item 6 of the cable information, and on Item 7 of the monthly information, were never remitted.

BBrovedani:bjw

Mr. H. Merle Cochran, Deputy Managing Director November 18, 1958

J. Del Canto, WHD

Visit of Mr. José Garrido Torres

I saw Mr. Garrido Torres briefly at the luncheon of the Americas in New York, and he confirmed that he would be coming to see you at 3:30 this afternoon. I did not discuss business with him since we shall allow him to take the initiative here when he talks to you.

In the afternoon session dealing with international finance, after the two main speakers, there was apparent discussion among six private New York bankers, and the question of increase of Fund quotas came up. Mr. George H. Chittenden, Vice President of J. P. Morgan & Company, indicated that the increase in Fund quotas, under review, should be welcome by the banking community since it will strengthen not only the dollar resources but the moral influence of the Fund persuading countries to follow better policies.

I am not attempting to report on the conference because I understand Mr. Williams will give you a complete report when the three sessions are over.

Mr. J. Del Canto

November 18, 1958

B. Brovedani

Flow of information from Brazil

A letter of June 6, 1958 by the Managing Director to the Minister of Finance contains a list of information needed for the follow-up of the Brazilian economic developments as provided by the stand-by arrangement. Information on six items was to be sent by a weekly cable, information on eight items by monthly air letters.

The flow of information by cable started early in September; the last cable was received on November 13. These cables refer to items 1 to 5 of the list; no information was submitted on item 6.

Monthly information was received only twice, in mid-August and in mid-September, with the most recent data referring to August. There was an interruption in the flow of monthly information after September. Furthermore, the Brazilian authorities wait for the full material to be ready before effecting the remittance, while it would be preferable if each information item were sent as soon as available. Data on item 6 of the cable information and on item 7 of the monthly information were never submitted.

Att: Copy of letter of June 6, 1958.

Dr. O. Paranagua, Executive Director

November 17, 1958

The Managing Director

Suppliers' Credit in Brazil

This is in reference to your memorandum of November 7, 1958 in which you submit a clarification of the concept of "suppliers' credit" for the purposes of the undertaking with respect to such credit under the letter from the Minister of Finance of Brazil annexed to the stand-by arrangement between Brazil and the Fund.

The staff has looked into this matter and finds itself in agreement with the substance of your understanding of the concept of "suppliers' credit" for the purpose of the undertaking under the stand-by arrangement. By way of clarification, I should like to add that in the staff's understanding, suppliers' credit includes the type of credit referred to in your memorandum, whether such credit is extended to the Government, government agencies, political subdivisions or private entities, whether it is extended by the supplier of goods, by a commercial bank, or by a government institution and whether it has or has not been guaranteed by the Brazilian Government or an agency thereof.

(Revised by Mr. Jacobsson
Cleared by telephone with Mr. Paranagua by Mr. Brand
Cleared with Mr. Gold)

SUBJECT COPY

Dr. O. Paranagua, Executive Director

November 17, 1958

The Managing Director

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(Revised by Mr. Jacobsson
Cleared by telephone with Mr. Paranagua by Mr. Brand
Cleared with Mr. Gold)

Office Memorandum

TO : Dr. O. Paranagua, Executive Director DATE: November 14, 1958

FROM : The Managing Director

SUBJECT : Suppliers' Credit in Brazil

This is in reference to your memorandum of November 7, 1958 in which you submit a clarification of the concept of "suppliers' credit" for the purposes of the undertaking with respect to such credit under the letter from the Minister of Finance of Brazil annexed to the stand-by arrangement between Brazil and the Fund.

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It is extended to the government, government agencies, political subdivisions or private entities, whether it ~~is extended~~....

Confidential

November 14, 1958

The Managing Director
The Deputy Managing Director
Jorge Del Canto, Western Hemisphere Department

Stabilization Program in Brasil

The President of Brasil called the representatives of the Brazilian Press on November 5 to introduce, in the presence of the Minister of Finance, the program of monetary stabilization for the period September 1958 to December 1959, elaborated in the Finance Ministry. He stated that the chief aim of this program was to curb inflation, and to establish a climate of social and economic stability. The plan was not an emergency measure to deal with a critical situation; it is one more step in the direction of the global economic planning of the Brazilian economy. The primary objective of the program was that of slowing down the monetary expansion, to promote economic development in a climate of price stability and of equilibrium in external payments.

The plan was subsequently transmitted to Congress for approval. The House of Representatives is currently discussing the plan. There is some opposition to the program, and modifications prior to approval are expected by persons informed on the current Brazilian political situation. The U.S. Press has reported signs of social unrest and there has been political tension, associated with what has been labelled as "mass insubordination of air force officers over the naming of War Minister Henrique Teixeira Lott as Acting Air Minister."

This memorandum attempts to summarize the stabilization program, but no full evaluation is submitted at this stage, until we have had an opportunity to digest fully the program. (The program is embodied in a book of nearly 200 pages.)

I. Program for 1958

1. Monetary expansion

a. The currency issue is not to exceed Cr$107.4 billion at the end of 1958; this represents an increase of Cr$5.8 billion above the ceiling of Cr$102 billion established in the June stand-by arrangement (EBS/58/25, Supp.3). The currency issue was Cr$111.6 billion on November 1, 1958, and the new ceiling implies a reduction by Cr$4.2 billion during November-December. The Brazilian authorities expect that the abnormal conditions which forced a large volume of issue during September have subsided.

b. The money supply is not to exceed Cr$335.3 billion by the end of 1958. This represents an increase of 3.2 per cent above the level at the end of July. Under the June stand-by arrangement no ceiling has been imposed on the money supply.

2. Rediscounts

The issue of currency in Brazil is, in large part, based on lending by the Rediscount Department (CARED) of the Bank of Brazil to commercial banks and to the Bank of Brazil itself. The operations of that Department are subject to the following ceilings:

a. Rediscounts and other credits to the commercial banks shall not exceed Cr$8.6 billion by the end of 1958. These credits totaled Cr$9.9 billion at the end of August. The June stand-by ceiling applied to discounts and other credits extended to the commercial banks by three different sections of the Bank of Brazil, namely, CARED, Caixa da Mobilização Bancaria, and the Bank of Brazil on its own account. These credits were not to exceed, as of the end of each month of 1958, the level outstanding as of the end of the corresponding month of 1957.

b. The debt of the Bank of Brazil to CARED shall not exceed Cr$53.9 billion by the end of 1958. This debt totaled Cr$49.9 billion at the end of August, so that the ceiling allows a further expansion of Cr$4.0 billion by the end of the year.

The previous stand-by ceiling on credits of the Bank of Brazil to states and municipalities, and to the private sector are not included in the new program of stabilization.

3. Legal reserves of commercial banks

According to the provisions of the stand-by arrangement of last June, the Government would, on approval by Congress of new legislation, increase bank reserve requirements to the legal maximum, and require commercial banks to deposit 50 per cent of the current increment in deposits to legal reserves, until the new legal reserve requirements are satisfied. The maximum legal reserves were to be increased to 12 and 24 per cent for time and demand deposits respectively--the old legal maxima being 6 and 14 per cent. The new plan emphasizes the urgency of obtaining Congressional approval of this legislation in order to have a more effective instrument of control although, it is stated, it is not now the intention of the Government to use the new powers immediately.

II. Program for 1959

The purpose of the plan is to promote economic development with stability. During the first period of transition and readjustment which is expected to last until the end of 1959, the plan aims at slowing down the rate of inflation. However, a certain amount of monetary expansion will be inevitable in order that the economy can absorb, without unemployment, the impact of some readjustments in salaries which are necessary to compensate the loss in purchasing power of those segments of the population whose incomes are fixed. It is expected that some prices will increase during the transition period as the general level of prices becomes stabilized.

The stabilization program involves the adoption of measures by the Government in four basic sectors: (1) currency and credit; (2) public finances; (3) wages; and (4) balance of payments. No attempt is made to estimate the cost of the price support program for coffee in 1959, because of the general assumption that the cost of coffee financing will be less than the net profits derived from exchange transactions.

1. Currency and credit

a. The expansion of the money supply should not exceed Cr$35.5 billion during 1959, that is, 10 per cent above the estimated total for December 31, 1958.

b. The currency issue should not increase in 1959 by more than Cr$10.5 billion, that is, about 10 per cent above the total of Cr$107.4 billion, estimated for the end of 1958.

c. The increase in the currency issue is usually effected through the Rediscount Department of the Bank of Brazil. The operations of that department are, therefore, subject to the following ceilings:

(1) Rediscounts and other credits to the commercial banks shall not exceed Cr$10.9 billion by the end of 1959. This level is Cr$2.3 billion, or 27 per cent, above the estimated total for the end of 1958.

(2) The credit of the Rediscount Department to the Bank of Brazil should not exceed Cr$64.6 billion by the end of 1959. This level is Cr$10.7 billion, or 20 per cent, above the estimated total for the end of 1958.

d. In order that the above ceilings be observed, a budget is proposed for the credits extended by the various departments of the Bank of Brazil during 1959. The distribution of these credits is to be based on the percentage distribution of the credits extended by the various departments of the Bank of Brazil during the last few years. However, the Department of Agriculture and Industry is exempted from any ceiling; it is expected to expand more than normally because of the need to accelerate the growth of exports.

e. The loans of the Bank of Brazil to official entities and to states and municipalities are not expected to increase; any new loans will be limited to the volume of future amortizations.

f. The amount of credit extended by the Bank of Brazil to the Treasury is expected to be relatively small because of the anticipated reduction in the fiscal deficit, and because part of the deficit is expected to be financed by noninflationary means.

g. In addition to the above ceilings, the Rediscount Department of the Bank of Brazil will exercise more stringent qualitative controls in the selection of commercial paper offered for rediscounting, and the payment of rediscount arrears. The discount rate will be changed depending on the conditions which exist in the money market during 1959.

2. Public finances

a. The total cash expenditures of the Federal Government for 1958 shall be limited to Cr$158 billion. Of this total Cr$15 billion are extrabudgetary expenditures, and Cr$8 billion are expenditures for expected increases in salaries of public employees; budgetary expenditures are estimated at Cr$135 billion.

b. The receipts for 1959 are estimated at Cr$143 billion. Of this total receipts of Cr$135 billion are based on the present tax structure, and Cr$13 billion are expected to result from changes in the tax structure, as follows: the expected yield from increased income tax rates is Cr$5 billion; increased excise and stamp tax rates are estimated to yield an additional Cr$7.5 billion; and other miscellaneous increases in tax collections are estimated at Cr$0.5 billion.

c. The cash deficit of Cr$10 billion is to be financed by borrowing Cr$4 billion from the Bank of Brasil, and issuing Cr$6 billion in Treasury bills.

3. Wages

Minimum wages are to be increased so as to re-establish the purchasing power of wages prevailing in 1956. This would be equivalent to fixing the minimum wage at about Cr$5,400 in the Federal District by the beginning of 1959.

Official entities which sell their services to the public are expected to increase the prices of their services during 1959, in order to reduce their operating deficit. Official entities which do not sell their services to the public are expected to reduce costs in order to reduce their deficit.

It is also recommended that if an official entity raises the salaries of its employees, it shall also increase the prices of its services in such a way as to cover the increased expenditures.

4. Balance of payments

It is the purpose of the stabilization plan to re-equilibrate the balance of payments, and eventually to produce an export surplus. For this purpose the following policies are to be adopted:

a. Gradual elimination of exchange subsidies, in such a way as to (1) eliminate the artificial stimulus which is given to certain imported goods, and (2) discourage foreign loans for investments, the productivity of which is reasonable only because of the low prices of imported equipment.

b. Subsidies which are considered necessary should be financed with budgetary revenues, rather than through special taxes on the export sector.

c. New authorizations of suppliers' credit will be limited to the amount of repayment and cancellation of the principal. In view of the large volume of obligations already assumed for the next three years, it is urged that any new suppliers' credits should mature after at least three years.

d. Initiating any projects for economic development which need a large amount of capital shall be subordinated to the availability of long-term foreign loans and may not be financed through short-term foreign loans.

CONFIDENTIAL

Mr. Per Jacobsson, Managing Director November 14, 1958

J. Del Canto, WHD (In consultation with the Legal Department)

Suppliers' Credit in Brazil

In his memorandum of November 7, 1958 Mr. Paranagua proposed the following clarification of the concept of "suppliers' credit" for the purposes of the undertaking with respect to such credit under the letter from the Brazilian Minister of Finance, dated May 26, 1958 annexed to the stand-by arrangement with Brazil:

> "It is understood by suppliers' credit the financing received by importers residing in Brazil, with terms not less than 12 months and not higher than seven years."

The staff, while in agreement with the substance of Dr. Paranagua's clarification, finds that his formulation is vague and may consequently lead to a misunderstanding of the scope of the commitment undertaken in the letter of the Brazilian Minister of Funance. More specifically, Mr. Paranagua's formulation, which does not expressly include in "suppliers' credit" credit granted by foreign governmental institutions, might be used as a basis for an argument that the commitment under the letter referred to above does not cover Export-Import Bank credits used to finance exports to Brazil.

The staff, therefore, recommends that Mr. Paranagua's memorandum be answered along the lines of the draft in the attachment to this memorandum.

1. Background of this inquiry

Brazil initiated negotiations for a stand-by with the Fund in April 1958. During the discussions one of the problems that came up for discussion was the medium and short indebtedness incurred by Brazil towards American and European suppliers. For several years the IBRD had unsuccessfully tried to put an end to this, and it was felt by us that a clause should be incorporated in the letter of intentions annexed to the stand-by that would commit Brazil to put an end to this increased indebtedness which was seriously endangering Brazil's balance of payments for the immediate years ahead. The language finally incorporated into the letter annexed to the stand-by (letter of May 26, 1958, last 2 paragraphs of Section 5) reads as follows:

> "With regard to registration with SUMOC of suppliers' credits in convertible and ACL currencies, the Brazilian Government will not exceed the total amount as of December 31st, 1957. New authorizations will be limited to the amount of repayments and cancellations of the principal of suppliers' credits and will, moreover, be restricted to highly essential projects and will be granted only in cases where repayment schedules allow for a three-year period of grace."

At the time of our discussions with Brazil we did not know precisely the level of outstanding suppliers' credits as of the end of 1957. More recently, on the basis of our own information and information compiled by the IBRD, we have arrived at the following figures:

Brazil: Suppliers' credits registered by SUMOC as of December 31, 1957

1) $130.5 million to the government or guaranteed by the government.
2) $27.9 million to government agencies and political subdivisions.
3) $19.1 million to entities falling in the categories 1) and 2) listed above extended by the Export-Import Bank for a period of 7 years or less.
4) $107.7 million to private entities.
5) $2.5 million Export-Import Bank loans to private companies for a term of 7 years or less (rough estimate).

Total of suppliers' credits $287.7 million

We have not discussed this figure of $287.7 million with the Brazilians, but when we talked of a ceiling in the course of our stand-by negotiations, the Brazilians thought that the ceiling would be about $350 million. In the course of our future discussions with Brazil we may firm up our figure to have an agreed ceiling.

It can be noted that in these figures is included $21.6 million of suppliers' credit extended by the Eximbank, which in our judgment could not be excluded without discriminating against European suppliers. Since 1954 the Export-Import Bank has its own "Exporter Credit Program" (3 to 5 years' credit, with a grace period of 6 months) whereby the Eximbank finances on a medium-term basis 60 per cent of the value of U.S. exports (primarily equipment), provided the U.S. manufacturer is willing to finance 20 per cent, and the recipient country the remaining 20 per cent. The language proposed by Mr. Paranagua is somewhat vague and does not make it clear whether the type of suppliers' credit supplied by the Export-Import Bank is included for the purposes of the commitment under the stand-by arrangement with Brazil. This is a practical problem since at some point this question may be raised with us either by the Brazilians or by the Export-Import Bank. If such question should be raised, we would have no alternative but to indicate that this type of credit is included under the ceiling in the letter.

Confidential

The Managing Director
The Deputy Managing Director

November 14, 1958

J. Del Canto, WHD

Brazil--Status of Performance Under the Stand-By

In mid-1958 the Brazilian authorities discussed with the IMF a program of economic stabilization, designed to arrest the monetary expansion by combating its chief factors, i.e., the fiscal deficit, credit expansion and the coffee surplus. The program was accompanied by the adoption of measures tending to simplify the Brazilian exchange system.

1. The Program of Economic Stabilization

The economic program indicated to the Fund at the time of the negotiations leading to the stand-by agreement as later revised (see EBS/58/38) includes an up-to-date estimate of the Brazilian payments gap in dollars and ACL currencies for 1958, a plan of action to tackle the problem of the surplus coffee production and of its financing and a general program of fiscal and monetary policies of stability.

(1) The payments deficit. The Brazilians estimated originally in May 1958 a deficit in the official exchange market for the dollar and ACL Area at $200 million, but this was revised upwards by July to $330 million. They expected to finance this deficit by resorting to the Eximbank and private New York banks to the extent of $150 million, by using the Fund resources up to $75 million (including a repurchase for $37.5 million) and the use of existing lines of credit in New York up to $16.5 million and the use of $42.7 million of their own balances. The balance was expected to be negotiated with the ACL countries.

Brazil obtained in June a stand-by in the IMF for $37.5 million, including a permission to refund two repurchases for $17 million in July 1958 and $20.5 million in December 1958. The last repurchase was subject to consultations and an agreement on policies for 1959.

In August 1958, Brazil obtained a loan of $100 million from the Eximbank, repayable with three years of grace and five years of amortization during 1961/65. The first tranche of $40 million was drawn immediately to help reconstitute the lines of credit to the United States, while the remaining $60 million was to be drawn down at the rate of $15 million monthly, during September/December 1958. Furthermore, the Brazilian Government obtained an additional loan of $58 million from private U.S. banks for a period of about three years. Part of this money will be applied to restoration of lines of credit with the U.S. banks.

On the basis of data as of September 1958 it would appear to the staff that the deficit might be somewhat higher than the original estimate because of a further decline in the price of coffee, although this has been partially offset by an increase in exports other than coffee, cacao and cotton. This is being financed by increased "swap" operations. The reserve position, accordingly, continues quite weak. As of the end of August dollar working balances were around $6 million; the balance is $325 million of gold, of which $200 million is pledged as collateral to a loan with a consortium of New York banks and around $41.1 million of ACL and bilateral balances.

During the stand-by negotiations Brazil committed itself to reduce the amoung of exchange in the auction market by 20 per cent at the beginning of September. This was implemented and led to a sharp increase in the agios that went up (average for both categories) from Cr$140.8 at the end of July 1958 to Cr$192.6 million on November 8. The free market rate has correspondingly depreciated from Cr$134 per US$1 in July to Cr$156 in September; it has declined to Cr$138.9 per US$1 in November due to the shift of marginal exports into the free market in October.

Brazil has also complied with the increase in the rate for preferential imports. In June several imports were shifted into the category of Cr$70 per US$1, keeping newsprints, petroleum and government payments at lower rates. In October this preferential rate of Cr$70 was moved up to Cr$80 and marginal exports were shifted into the free market.

(2) Fiscal and monetary policies. Various targets were set on important economic magnitudes, including the actual fiscal deficit for 1958, Bank of Brazil lending to banks, to the Brazilian States, and to the private non-banking sector and the monetary issue. In addition, it was contemplated to restrict banks' liquidity through an increase in legal reserve ratios. The various ceilings were as follows: (1) the fiscal cash deficit for 1958 should not be in excess of Cr$20 billion, (2) total lending by the Bank of Brazil to states and municipalities should not exceed, at any time in 1958, the amounts outstanding at the end of 1957, (3) the expansion of loans in 1958 by the Bank of Brazil to the private non-banking sector is to be kept to a maximum of 5 per cent over the level of December 1957, so that the amounts outstanding should never exceed Cr$96.4 billion, (4) the outstanding amount of rediscounts and emergency loans to commercial banks should not exceed in the various months of 1958, those of the same month in 1957, (5) currency issue by the Central Bank should not exceed Cr$102 billion by the end of 1958.

In addition to these "ceilings" the Brazilian monetary authorities intended to increase the legal reserve ratios of commercial banks from 6 to 14 per cent for time deposits, and from 12 to 24 per cent for demand deposits. When this legislation is passed, the monetary authorities propose to enforce 50 per cent marginal reserve requirements on new deposits, until the new reserve requirements are satisfied.

(3) Performance under the stand-by.

a. Monetary and credit targets

(i) Bank of Brazil's credit to the private non-banking sector was subject to a ceiling allowing for an expansion of 5 per cent during 1958 to a total of Cr$96.4 billion. By the end of May 1958 this ceiling was exceeded, and this lending continued to grow to a total of Cr$104.8 billion by the end of August.

(ii) Bank of Brazil credit to states and municipalities was limited to the level outstanding at the end of 1957, of Cr$14.3 billion. This ceiling was observed and at the end of August this lending amounted to Cr$13.6 billion.

(iii) The level of rediscounts to commercial banks was not to exceed at the end of each month of 1958 the level outstanding as of the end of the corresponding month of 1957. At the end of June 1958 these credits were Cr$.9 billion over the amount outstanding in June last year; in August they were Cr$1.8 billion higher than in the comparable months last year.

(iv) The central bank rediscount rate was increased from 6 per cent to 8 per cent and 10 per cent.

(v) A bill was sent to Congress for the purpose of increasing the maximum legal reserve ratios. This bill has not been approved and the reserve ratios could not be changed.

(vi) Currency issue should not exceed, at any time during the second half of 1958, Cr$102 billion (5 per cent increase over December 1952). This amount was exceeded in June and by November 8, 1958 currency issue amounted to Cr$115.4 billion.

b. The fiscal position

The Brazilian authorities were to limit the fiscal cash deficit for 1958, at Cr$20 billion. However, available data show that the fiscal deficit for the first half of the year amounted to Cr$20.5 billion; it was in part financed by the issue of treasury notes to commercial banks (Cr$13.6 billion) and the rest by net advances by the Bank of Brazil. Loans of the Bank of Brazil to the Treasury continued to increase by Cr$1.3 billion in July, Cr$2.5 billion in August, and Cr$2.2 billion in September and by Cr$2.4 billion from the end of September to November 8, 1958. The deficit resulted from a shortfall of revenues and from the increase in costs due to wage and price increases.

Normally there is a pronounced increase of expenditures during the last quarter-year and a seasonal expansion of the deficit. In 1957 deficit financing by the Bank of Brazil amounted to about Cr$23 billion in the last quarter of the year. Thus it appears very difficult to limit the deficit for 1958 to the level of last June, as required by the stand-by ceiling.

c. Coffee policy

In the original program submitted to the Fund, the exportable coffee crop was estimated at 25 million bags. Of this, 10 million bags were to be surrendered to the Government without purchase payments. The remaining 15 million bags were intended for export, but it was understood that the Government would purchase any shortfall in exports. It was understood that as much as 2 million bags might conceivably be purchased under this provision at a cost of Cr$6 billion.

The Government changed this program effective July 1. It is now believed that the exportable crop will amount to 26-27 million bags. The Government intends to export about 16 million bags and to withhold from export the remaining 40 per cent. However, instead of withholding without payment the Government now plans to make a purchase although at a price substantially below the market price. The compulsory purchase of 40 per cent is divided in two parts. One quarter of this amount will consist of inferior grades and will be surrendered for a nominal price of Cr$100 per 60 kilo bag. This coffee will be made into fertilizer. The remaining three quarters of the surrendered coffee (30 per cent of the total crop) will be purchased at railhead at a price which varies by grade of coffee and by area of production from a minimum of Cr$950 to a maximum of Cr$1,950 per bag. For Santos 4 the price is equivalent to about 60 per cent of the present market value.

The 1957/58 coffee crop amounted to 21 million bags, with a total value in cruzeiros estimated at Cr$48.6 billion. The current crop is now estimated at 26.8 million bags, with a total value of Cr$51 billion. The purchase prices for the excess production (40 per cent) are now lower than for the previous crop. Also, the decline in foreign prices was offset by a devaluation of the exchange rate. The total value of the current crop is about 5 per cent higher than for 1957/58. Considering the increase in domestic prices (about 20 per cent) this will imply a slight reduction in real income from coffee. However, this estimate assumes exports equivalent to 16 million bags. If they fall short of this, the Brazilian Government is to purchase the shortfall at the end of the crop year in July 1959, at prevailing export prices. This may increase the cost of the coffee program beyond the estimated Cr$51 billion.

Coffee financing was a major inflationary factor towards the end of 1957, and during the first quarter of 1958, when it was equivalent to 7.2 per cent of currency issue. Most of the purchases of the 1958/59 surplus will be effected during the latter part of 1958, and no decline in the inflationary impact of this factor can reasonably be expected. The total net cost of surplus purchases in 1958 is estimated at Cr$9.2 billion; Cr$4.2 billion is to be spent on the purchase of what is left of the 1957/58 crop.

d. Exchange policy commitments

One of the commitments under the stand-by was to make efforts towards the latter part of 1958 in the direction of a unification of the exchange system. Paragraph 6 of the letter attached to the stand-by reads:

> "In addition to the exchange increases outlined above, the Government intends to introduce with as little delay as possible further exchange measures with a view to attaining a unitary rate and will remain in close consultations with the Fund for this purpose."

As indicated before, Brazil moved in early October the preferential rate for imports from Cr$70 to Cr$80 per dollar and shifted marginal exports into the free market. In announcing the meaning of these measures to the press, Minister Lucas Lopes stated, among other things, to the press (October 4, 1958):

> "As I have indicated in several occasions, I do not consider possible to adopt now an exchange reform, in spite of the theoretical advantages of exchange unification. A major exchange reform could only be implemented with success if we had available international reserves of a certain magnitude, in order to correct excessive fluctuations in the rate of exchange, and after we have succeeded in making progress in the process of internal monetary stabilization. In the absence of these conditions, it would be inadvisable to take a drastic attitude on this question of an exchange reform..."

This attitude is bound to disappoint our Board members, since in the course of the Board discussions on the stand-by, last June, the expectation developed that Brazil would undertake a major simplification by the end of the year. This is one of the key points for discussions with the Minister, either here, or through a mission down in Rio.

Mr. H. Merle Cochran, Deputy Managing Director — November 14, 1958

Jorge Del Canto, Western Hemisphere Department

Brasil

As you probably know, the main Latin American speaker at the luncheon of the Americas on Monday will be José Garrido Torres, the Executive Director for SUMOC. I understand from Dr. Paranaguá that Dr. Garrido Torres has asked for an appointment to see you on Tuesday. He will probably take up with you the question of a mission to Brasil. He might also take up the question of Brazil discharging a repurchase obligation for $20.5 million in the course of December (not later than December 31, 1958).

(1) That they repurchase this amount of $20.5 million, they hold discussions with us in December and we reach agreement on policies and then they can draw on us for $20.5 million.

(2) If no agreement is foreseeable--and this is a real possibility since they have deviated from their commitments--they might not wish to risk repaying us, and then they might wish to propose an outright postponement of the $20.5 million.

You might wish to discuss this matter with the Legal Department.

For your guidance in your talk with Garrido Torres, I will forward to you this afternoon two memos:

(1) Status of compliance of commitments under the stand-by; and

(2) Review of the stabilization program submitted by Minister Lucas Lopez to Brazilian Congress.

Office Memorandum

TO : Mr. J. Del Canto

DATE: November 14, 1958

FROM : B. Brovedani

SUBJECT : Brazilian Stabilization Plan

The President of Brazil called the representatives of the Brazilian press on November 5, to introduce, in the presence of the Minister of Finance, the program of monetary stabilization for the period September 1958 to December 1959, elaborated in the Finance Ministry. He stated that the chief aim of this program was to curb inflation, and to establish a climate of social and economic stability. The plan was not an emergency measure to deal with a critical situation; it is one more step in the direction of the global economic planning of the Brazilian economy. The primary objective of the program was that of slowing down the monetary expansion, to promote economic development in a climate of price stability and of equilibrium in external payments.

The plan was subsequently transmitted to Congress for approval. The House of Representatives is currently discussing the plan. There is some opposition to the program, and modifications prior to approval are expected by persons informed on the current Brazilian political situation.

Office Memorandum

TO : Mr. Bruno Brovedani

DATE: November 14, 1958

FROM : G. Escobar

SUBJECT : Brazil--Report for the Week Ended November 8, 1958

The average agio for U.S. dollars has continued to fluctuate in recent weeks, and rose to Cr$192.6 per U.S. dollar during the week ended November 8, 5.1 per cent above the average of the preceding week. According to press accounts, the free rate depreciated slightly to Cr$138.9 last week.

The sale of foreign exchange in Rio de Janeiro and São Paulo auction markets amounted to $1.7 million and ACI$1.3 million during the week ended November 8. These amounts have been the same since the beginning of September, when the previous totals were reduced by 20 per cent.

The currency issue increased further to Cr$115.4 billion, 3.4 per cent above the total at the end of last week. The level of November 8 was Cr$13.4 billion above the ceiling of Cr$102 billion proposed for December 1958 (see EBS/58/25, Supp. 3).

The Government's cash deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, declined slightly to Cr$25.1 billion in the week ended November 8.[1] The present level of borrowing exceeds by Cr$5.1 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by about Cr$5 billion; during January-August 1958 it has overstated the deficit by about Cr$4.2 billion on the average.

Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

		Agio per US$ 1/ (Monthly average)	Free Market Rate (end of period)
1957:	December	66.8	90.5
1958:	January	96.1	97.5
	February	113.0	99.5
	March	121.6	106.8
	April	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	August	154.8	159.5
	September	196.7	156.3
Week ended:			
	October 4	178.8	153.8 2/
	25	187.6	144.9 2/
	November 1	183.3	137.0 2/
	8	192.6	138.9 2/

1/ For Rio de Janeiro and São Paulo.
2/ New York banks' selling prices for cable transfers on Friday of each week.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period		Currency Issue	Government Borrowing 1/
1957:	December	96.6	36.0
1958:	January	94.0	6.1
	February	94.6	10.9
	March	96.6	13.8
	April	99.1	16.9
	May	101.6	19.6
	June	103.4	22.6
	July	103.4	23.9
	August	104.3	23.2
	September	108.9 2/	22.7
Week ended:			
	October 4	110.1	25.4
	25	110.4	26.6
	November 1	111.6	25.6
	8	115.4	25.1

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills.

2/ Data for September 27.

Superintendência da Moeda e do Crédito

DECLARAÇÕES PRESTADAS À IMPRENSA PELO SR. DIRETOR DA PATRIMI, Dr. LUCAS LOPES, A RESPEITO DAS INSTRUÇÕES DO B.C.I., EXPEDIDAS PELA SUMOC, EM 31.5.61.

Algumas medidas de caráter cambial foram tomadas hoje pelo Conselho da Superintendência da Moeda e do Crédito em complemento das já há poucos adotadas anteriormente ao ensejo dos acordos firmados com o Fundo Monetário Internacional durante os meses de maio e junho.

Essas medidas se enquadram também no programa de estabilização monetária que será submetido dentro de breves dias pelo Senhor Presidente da República, à consideração do Congresso Nacional.

Não obstante elas medidas que tendem à eliminação de subsídios a certos tipos de importação e a abrir novas possibilidades de exportação a produtos que não têm figurado de forma substancial nas estatísticas de nosso comércio exterior.

Não se ignora que o País vem lutando contra uma balança de pagamentos que, desde o ano passado, lhe é adversa. Corrigir essa situação tem sido nosso maior objetivo. Dentro das atuais possibilidades tudo estamos fazendo no sentido de aumentar nossa receita cambial pelo fomento à exportação.

Tranquilizado que está o mercado cafeeiro, não que [illegible]

ser estejam solucionados todos os nossos problemas de comércio exterior. Importar, e exportar cada vez mais deve ser nosso lema. Prosseguem nossos esforços para desburocratizar o mecanismo da exportação e, a par disso, voltamos nossas vistas em busca de novos produtos que possam se transformar em fonte supridora de divisas.

A deliberação hoje adotada pelo Conselho da Superintendência da Moeda e do Crédito, atribuindo a determinados itens da produção nacional taxas cambiais de níveis estimulantes à sua exportação com a venda de suas divisas no mercado livre, confirma o empenho nesse sentido, tanto mais que, sendo facultada à Carteira de Câmbio a compra dessas cambiais, haverá sempre a possibilidade de carrear parte dessa receita ou mesmo o total, para os leilões normais de importação, aceitando as ofertas aos importadores com tendência a reduzir os ágios da categoria geral.

Ainda que os frutos dessa medida não possam ser colhidos de imediato, é inegável o incentivo que ela proporcionará à produção capaz de ser exportada, principalmente das regiões menos desenvolvidas do País, além do estímulo à criação de novos mercados para a nossa indústria, permitindo melhor utilização de investimentos.

Conforme já declarei repetidamente, não considero desejável ou possível efetuar a reforma cambial, a despeito da vantagem teórica inerente à unificação de taxas e simplificação do sistema cambial. Uma reforma poderia ser operada com êxito se dispuséssemos de reservas cambiais de razoável magnitude, para ocorrer a flutuações excessivas da taxa de câmbio, e se já estivéssemos mais avançados na estabilização monetária interna. Na ausência dessas condições, seria inconveniente adotarmos atitude drástica

tocante ao sistema de câmbio. Isso não impede, entretanto, que façamos ajuda, dentro do atual sistema, um esforço maior de diversificação das exportações e de correção de certas distorções oriundas do subsídio cambial dado a determinados bens de importação.

Paralelamente a êsse impulso para a diversificação de exportações, torna-se também necessário desestimular as importações subsidiadas.

A correção dos saldos negativos do nosso comércio externo exige necessàriamente uma contenção do dispêndio global com bens importados. Êsse sacrifício, entretanto, não deve recair inteiramente sôbre os importadores normais de matérias-primas, peças de reposição, equipamentos e outros bens indispensáveis à nossa economia, que tem de licitar as poucas divisas lançadas em leilão. Lógico e normal se apresenta, também, a adoção de maior austeridade nos gastos cambiais do Govêrno e na importação de produtos que ainda gozam de taxas cambiais favorecidas.

Releva notar que tenderão a aumentar apenas os preços diretos dêsses bens e serviços, mas não o seu custo global para o País, pois êste já vinha sendo pago de qualquer forma. Em outras palavras, a redução da subvenção cambial apenas revela um custo que já existia, porém que vinha sendo inequitativamente distribuído, pois que os consumidores diretos dêsses bens pagavam um preço inferior ao seu custo real, transferindo a diferença à produção destinada à exportação ou ao Tesouro Nacional. Êste último, por sua vez, se via obrigado a aumentar as suas emissões de papel-moeda, com o resultado contraditório de que, para se impedir a alta de alguns preços, se elevava o nível geral de preços, decorrência inevitável das emissões de pa

pel-a-via.

A extensa pauta de produtos de importação convencionada e a importância de alguns deles na atividade econômica diária tornam impossível a eliminação abrupta do subsídio cambial, sendo necessário um processo gradual ajustamento, tal como se prevê numa das instruções já aprovadas pela SUMOC, que apenas reduz a margem de sobrevalorização cambial, sem, entretanto, eliminá-la.

Urge, porém, não criarem novas taxas de favor que perpetuem e alarguem essas distorções. Com esse objetivo, vetou recentemente o Executivo o inciso VII do artigo 3 da Lei de Tarifas, a fim de limitar a concessão de taxas favorecidas exclusivamente a setores essencialmente básicos, como produção de energia elétrica, cujos preços são controlados pelo Poder Público, produção de papel-jornal e, finalmente, fabricação de equipamentos para fins agrícolas e extrativos, a qual, ao contrário de outros setores industriais, ainda não atingiu índices satisfatórios de produtividade.

Parece curial que um país que depende pesadamente da importação de certos desses produtos e que enfrenta séria escassez de divisas não deveria estimular a importação, pois que esta, sem qualquer sacrifício, já tende a subir aceleradamente em virtude do próprio crescimento da economia.

No caso do petróleo importado, a taxa cambial favorecida só tem apenas o efeito de estimular o gasto de divisas. Redunda, também, no crescimento mais lento da receita do Imposto Único sôbre Combustíveis, que

constitui a fonte principal de recursos para os programas rodoviários federais, estaduais e municipais, para a Petrobrás, e, em menor proporção, para a Rêde Ferroviária Nacional. Constitui, portanto, um incentivo à importação sem adequada [illegible] dos recursos disponíveis para investimentos, quando precisamente o contrário deveria ocorrer num país que deseja acelerar seu crescimento.

No setor de transporte rodoviário, verifica-se que outros itens de custo, notadamente a condução, conservação e manutenção de veículos, crescem os custos mais fortemente que os combustíveis e lubrificantes. Na medida em que a elevação da taxa cambial para combustíveis aumente a receita disponível para pavimentação e construção de estradas, os benefícios resultantes são tais que, ao fim de pouco tempo, o custo do transporte tende a baixar, graças não só à diminuição do volume de combustível consumido por unidade de transporte, como também ao prolongamento da vida útil do veículo e redução de despesas de conservação.

De outro lado, o incremento das receitas para a Petrobrás possibilitará o aumento em que nos libertaremos da importação de combustíveis, permitindo que o nosso escasso suprimento de divisas se torne disponível para outros usos ligados à expansão industrial do país.

No caso do trigo, são também sensíveis as distorções causadas pelas taxas artificiais de câmbio. Estimula-se demasiado o consumo de um bem importado. A produção nacional se torna artificialmente gravosa, por não poder concorrer com os preços do trigo estrangeiro. Para preservar o estímulo à produção nacional, o Tesouro Nacional tem que arcar com a diferença

do custo, através de subvenções muito superiores às que seriam necessárias se o trigo fôsse importado a taxas cambiais realistas. Paralelamente às medidas tomadas será eliminada a subvenção direta do Tesouro ao trigo consumido.

Como disse de início as deliberações hoje tomadas pelo Conselho da SUMOC fazem parte de um amplo programa de estabilização monetária que vem sendo elaborado sob a orientação direta do Presidente Juscelino Kubitschek, com o objetivo de deter o aumento do custo de vida e fortalecer o cruzeiro no mercado monetário.

Ainda que representem passos difíceis, a que somos levados em conseqüência da precaridade da posição de nossos produtos no mercado internacional as medidas tomadas são destinadas ao resultado certo de fortalecimento de nossa economia.

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November 13, 1958

Dear Herculano:

I wish to acknowledge receipt of your letters of November 4 and 5, DE/DIVIN/Cta.196/58 and Cta. DE-DIBAP-904/58, with data concerning the fiscal, credit and exchange position of Brazil, in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe do Departamento
Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

mcgs

SUBJECT COPY

Mr. B. Arevedani

November 22, 1958

C. Escobar

Brazil--Stabilization Plan for 1959

The following is a summary of the stabilization plan for 1959 which was proposed by the Minister of Finance, and is to be presented to Congress for approval.

The purpose of the plan is to promote economic development with stability. During the first period of transition and readjustment which is expected to last until the end of 1959, the plan aims at slowing down the rate of inflation. However, a certain amount of monetary expansion will be inevitable in order that the economy can absorb, without unemployment, the impact of some readjustments in salaries which are necessary to compensate the loss in purchasing power of those segments of the population whose incomes are fixed. It is expected that some prices will increase during the transition period as the general level of prices becomes stabilized.

The stabilization program involves the adoption of measures by the Government in four basic sectors: (1) currency and credit; (2) public finances; (3) wages; and (4) balance of payments. No attempt is made to estimate the cost of the price support program for coffee in 1959, because of the general assumption that the cost of coffee financing will be less than the net profits derived from exchange transactions.

1. Currency and credit

a. The expansion of the money supply should not exceed Cr$35.5 billion during 1959, that is, 10 per cent above the estimated total for December 31, 1958.

b. The currency issue should not increase in 1959 by more than Cr$10.5 billion, that is, about 10 per cent above the total of Cr$107.4 billion, estimated for the end of 1958.

c. The increase in the currency issue is usually effected through the Rediscount Department of the Bank of Brazil. The operations of that department are, therefore, subject to the following ceilings:

(1) Rediscounts and other credits to the commercial banks shall not exceed Cr$10.9 billion by the end of 1959. This level is Cr$2.3 billion, or 27 per cent, above the estimated total for the end of 1958.

(2) The credit of the Rediscount Department to the Bank of Brazil should not exceed Cr$64.6 billion by the end of 1959. This level is Cr$10.7 billion, or 20 per cent, above the estimated total for the end of 1958.

d. In order that the above ceilings be observed, a budget is proposed for the credits extended by the various departments of the Bank of Brazil during 1959. The distribution of these credits is to be based on the percentage distribution of the credits extended by the various departments of the Bank of Brazil during the last few years. However, the Department of Agriculture and Industry is exempted from any ceiling; it is expected to expand more than normally because of the need to accelerate the growth of exports.

e. The loans of the Bank of Brazil to official entities and to states and municipalities are not expected to increase; any new loans will be limited to the volume of future amortizations.

f. The amount of credit extended by the Bank of Brazil to the Treasury is expected to be relatively small because of the anticipated reduction in the fiscal deficit, and because part of the deficit is expected to be financed by noninflationary means.

g. In addition to the above ceilings, the Rediscount Department of the Bank of Brazil will exercise more stringent qualitative controls in the selection of commercial paper offered for rediscounting, and the payment of rediscount arrears. The discount rate will be changed depending on the conditions which exist in the money market during 1959.

2. Public finances

a. The total cash expenditures of the Federal Government for 1959 shall be limited to Cr$158 billion. Of this total Cr$15 billion are extrabudgetary expenditures, and Cr$8 billion are expenditures for expected increases in salaries of public employees; budgetary expenditures are estimated at Cr$135 billion.

b. The receipts for 1959 are estimated at Cr$148 billion. Of this total receipts of Cr$135 billion are based on the present tax structure, and Cr$13 billion are expected to result from changes in the tax structure, as follows: the expected yield from increased income tax rates is Cr$5 billion; increased excise and stamp tax rates are estimated to yield an additional Cr$7.5 billion; and other miscellaneous increases in tax collections are estimated at Cr$0.5 billion.

c. The cash deficit of Cr$10 billion is to be financed by borrowing Cr$4 billion from the Bank of Brazil, and issuing Cr$6 billion in Treasury bills.

3. Wages

Minimum wages are to be increased so as to re-establish the purchasing power of wages prevailing in 1956. This would be equivalent to fixing the minimum wage at about Cr$6,400 in the Federal District by the beginning of 1959.

Official entities which sell their services to the public are expected to increase the prices of their services during 1959, in order to reduce their operating deficit. Official entities which do not sold their services to the public are expected to reduce costs in order to reduce their deficit.

It is also recommended that if an official entity raises the salaries of its employees, it shall also increase the prices of its services in such a way as to cover the increased expenditures.

4. Balance of payments

It is the purpose of the stabilization plan to re-equilibrate the balance of payments, and eventually to produce an export surplus. For this purpose the following policies are to be adopted:

a. Gradual elimination of exchange subsidies, in such a way as to (1) eliminate the artificial stimulus which is given to certain imported goods, and (2) discourage foreign loans for investments, the productivity of which is reasonable only because of the low prices of imported equipment.

b. Subsidies which are considered necessary should be financed with budgetary revenues, rather than through special taxes on the export sector.

c. New authorizations of suppliers' credit will be limited to the amount of repayment and cancellation of the principal. In view of the large volume of obligations already assumed for the next three years, it is urged that any new suppliers' credits should mature after at least three years.

d. Initiating any projects for economic development which need a large amount of capital shall be subordinated to the availability of long-term foreign loans and may not be financed through short-term foreign loans.

GEscobar:bjw

Mr. Bruno Brovedani

November 12, 1958

O. Escobar

Brazil--Stabilization Plan for September-December 1958

The stabilization plan elaborated by the Minister of Finance of Brazil, and to be presented to the Congress for approval, proposed the following monetary ceilings for 1958.

1. Monetary expansion

a. The currency issue is not to exceed Cr$107.4 billion at the end of 1958; this represents an increase of Cr$5.3 billion above the ceiling of Cr$102 billion established in the June stand-by arrangement (EBS/58/25, Supp. 3). The currency issue was Cr$111.6 billion on November 1, 1958, and the new ceiling implies a reduction by Cr$4.2 billion during November-December. The Brazilian authorities expect that the abnormal conditions which forced a large volume of issue during September have subsided.

b. The money supply is not to exceed Cr$335.3 billion by the end of 1958. This represents an increase of 3.2 per cent above the level at the end of July. Under the June stand-by agreement no ceiling has been imposed on the money supply.

2. Rediscounts

The issue of currency in Brazil is, in large part, based on lending by the Rediscount Department (CAMOB) of the Bank of Brazil to commercial banks and to the Bank of Brazil itself. The operations of that Department are subject to the following ceilings:

a. Rediscounts and other credits to the commercial banks shall not exceed Cr$66.6 billion by the end of 1958. These credits totaled Cr$39.9 billion at the end of August. The June stand-by ceiling applied to discounts and other credits extended to the commercial banks by three different sections of the Bank of Brazil, namely, CAMOB, Caixa de Mobilização Bancaria, and the Bank of Brazil on its own account. These credits were not to exceed, as of the end of each month of 1958, the level outstanding as of the end of the corresponding month of 1957.

b. The debt of the Bank of Brazil to CAMOB shall not exceed Cr$53.9 billion by the end of 1958. This debt totaled Cr$49.9 billion at the end of August, so that the ceiling allows a further expansion of Cr$4.0 billion by the end of the year.

The previous stand-by ceiling on credits of the Bank of Brazil to states and municipalities, and to the private sector are not included in the new program of stabilization.

3. Legal reserves of commercial banks

According to the provisions of the stand-by arrangement of last June, the Government would, on approval by Congress of new legislation, increase bank reserve requirements to the legal maximum, and require commercial banks to deposit 50 per cent of the current increment in deposits to legal reserves, until the new legal reserve requirements are satisfied. The maximum legal reserves were to be increased to 12 and 24 per cent for time and demand deposits r spectively--the old legal maxima being 6 and 14 per cent. The new plan emphasizes the urgency of obtaining Congressional approval of this legislation in order to have a more effective instrument of control although, it is stated, it is not now the intention of the Government to use the new powers immediately.

November 12, 1958

Dear Herculano:

I wish to acknowledge receipt of your letter of October 29, DE/DIVIN/Cta.194/58, with data concerning the fiscal, credit and exchange position of Brazil, in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe do Departamento
Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

mcgs

SUBJECT COPY

NEW YORK TIMES, November 9, 1958

UNREST IN BRAZIL GROWS MENACING

Worsening Economic Crisis Generates Mob Violence —Some Banks Close

By TAD SZULC

Special to The New York Times.

RIO DE JANEIRO, Nov. 8—Menacing signs of social unrest are gathering like dark clouds over Brazil's tropical springtime.

They are generated by the worsening economic crisis and especially by a new and sharp round of price rises that may bring the increase in the cost of living for this year to nearly 30 per cent. The people are expressing their discontent in violence.

The Government has run into difficulties with Congress over the approval of tax measures needed to implement its two-year stabilization plan. Adding to its problems, the regime this week had to cope with the mass insubordination of air force officers over the naming of War Minister Henrique Teixeira Lott as Acting Air Minister.

Nearly 150 officers, including an entire jet squadron based in Rio, are under arrest for signing an anti-Lott letter. Sectors of the political Opposition have tried to turn the incident into a major crisis, but have thus far failed.

Symptomatic of the social situation were riots in São Paulo last week. Four demonstrators and a policeman were killed and mobs burned buses and street cars in protest against a one-cent increase in fares.

Early this week the crowds clashed with policemen in Belo Horizonte, capital of Minas Gerais State, during a demonstration against high prices. In Fortaleza, capital of the northeastern drought-plagued State of Ceara, similar incidents occurred this week.

Thursday night in Florianopolis, capital of the southwestern Santa Catarina State, thirty-one demonstrators were injured by the police as they rioted against an increase in power rates.

There have been runs on banks in some cities, although it is not fully clear how they started, and a dozen small banking institutions closed in recent weeks. The Government bailed out some others with loans.

Alarmed by the growing tension, President Juscelino Kubitschek appealed to local governments and to business men on Thursday to refrain from raising prices and costs until new minimum salaries could be approved by Congress, possibly early next year.

One immediate result of his appeal may be a decision by Rio de Janeiro's Mayor to delay the 50 per cent increase in the city's street car fares that was planned for next week.

While there is some evidence that unrest is often inspired by certain political groups—many obsrevers say the Communist party is provoking incidents—it is undeniable that the Brazilian worker faces growing difficulties in making ends meet.

The minimum monthly salary in São Paulo is 3,900 cruzeiros and in Rio it is 3,800 cruzeiros. It is about $27 at the inflated free market rate.

Tens of thousands of Brazilians earn considerably more than this, but other tens of thousands do not. The Finance Ministry says that since these minimum levels were approved in July, 1956, the cost of living has gone up 43 per cent. The Labor Ministry puts the increase since January, 1956, at 69 per cent.

Lisa

NEW YORK TIMES, November 9, 1958

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COPY

The Managing Director

November 7, 1958

O. Paranagua /s/

With reference to paragraph 5 of the letter, dated May 26, 1958, from the Minister of Finance of Brazil, annexed to the Stand-by Agreement of June 2, 1958, and relating to suppliers credit, I wish to clarify the concept of suppliers credit for the purpose of implementing the commitment undertaken in the above mentioned paragraph:

"It is understood by suppliers credit the financing received by importers residing in Brazil, with terms not less than 12 months and not higher than seven years."

I think that was the definition of suppliers credit the Staff had in mind during the negotiations of the Brazilian Stand-by credit.

Office Memorandum

TO : Mr. Del Canto

DATE: November 7, 1958

FROM : B. Brovedani

SUBJECT : Suppliers' Credit

As you had suggested, I got in touch yesterday with International Bank economists in order to arrive at a satisfactory definition of the term "suppliers' credit" used in our stand-by agreement with Brazil in one of the Brazilian commitments.

I met with Mr. Gerald Alter and Mr. Murray Ross of the Western Hemisphere Department and tried to reach a satisfactory definition from the viewpoint of the IBRD, where there is concern that Brazil may be induced by the difficult payments position to incur excessive medium-term indebtedness.

SUMOC grants registration to all transactions which result in a future burden on the balance of payments and it becomes necessary for the enforcement of the stand-by requirement to provide a definition which is not ambiguous and which leaves little scope for doubt in the implementation and in the calculation of the amount outstanding at the end of 1957. In this respect the International Bank already calculated this amount and would be willing to transmit this information to the Fund on request. The definition tentatively adopted at the meeting is as follows:

> "Suppliers' credit is credit involving a fixed contractual repayment obligation in foreign currencies on medium-term (1-7 years, inclusive) used for the direct financing of exports to Brazil. Creditor is frequently supplier of goods, but may be commercial bank or government institution. Credit may or may not be guaranteed by Brazilian Government or agency thereof."

This definition excludes short-term and long-term credit transactions, i.e., all credit with maturities of less than one year or of more than seven years. Some investments which may be registered by SUMOC and may appear similar in nature to lending operations are excluded if no fixed contractual repayments are involved. Lending for the financing of transactions different from export trade, as for instance some refinancing operations, are also excluded by definition from the concept of suppliers' credit. It was important to state that in many cases a Government banking institution, as the Export-Import Bank in the United States is the lender and not necesarrily only the exporters. The borrowers can, in some cases, be non-Brazilian residents, and the credit is included in the definition so long as SUMOC accepts registration. Government guarantee of the credit is not essential and a substantial proportion of these suppliers' credits of Brazil are not guaranteed.

cc: Messrs: D. Finch
J. Woodley

INTERNATIONAL MONETARY FUND

Stafford

Capitals

TO :

FROM: $ 11. loans & Mexican
Foreign Exchange
Reserves. –

1960 20 years
Capitals

3 years.

—

Stafford (American
Foreign Private)

N.Y.

phoned at 3 PM

Nov 7 '58

re wiring about

Brazil's supplier credits

INTERNATIONAL MONETARY FUND

TO : Brazil.

FROM: _____

xxx Considerar mayores
ventas a financiadas
recibidas en virtud de
convenios o Brasil
en plazos si inferiores
a 12 meses y superiores
y hasta xxxx

Mr. D. Finch

November 7, 1958

G. Escobar

Brazil—Report for the Week Ended November 1, 1958

The average agio for U.S. dollars declined to Cr$183.3 per U.S. dollar last week, 2.3 per cent below the average of the preceding week. According to press accounts the free rate declined to Cr$137.0 in the week ended November 1.

The sale of foreign exchange in Rio de Janeiro and Sao Paulo auction markets were US$1.7 million and ACU$1.3 million during the week ended November 1. These amounts have been the same since the beginning of September, when the previous totals were reduced by 20 per cent.

The currency issue increased further to Cr$111.6 billion, after a three week period during which it was unchanged at Cr$110.4 billion. The level on November 1 was Cr$9.6 billion above the ceiling of Cr$102 billion proposed for December 1958 (see EB3/58/25, Supp.3), and Cr$4.2 billion above the recently proposed ceiling of Cr$107.4 billion for the end of 1958.

The Government's cash deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, declined to Cr$25.6 billion in the week ended November 1.1/ The present level of borrowing exceeds by Cr$5.6 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958

1/ In 1957 Government borrowing understated the cash deficit by about Cr$5 billion, but during January/August 1958 it has overstated the deficit by about Cr$4.2 billion on the average.

Brazil--Exchange Market

(In cruzeiros per U. S. dollar)

		Agio for US$ 1/ (Monthly average)	Free Market Rate (end of period)
1957:	Dec.	66.8	90.5
1958:	Jan.	96.1	97.5
	Feb.	113.0	99.5
	Mar.	121.6	106.8
	Apr.	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	August	154.8	159.5
	September	196.7	156.3
Week ended:			
	October 4	178.8	153.8 2/
	11	188.4	144.9 2/
	18	197.9	144.9 2/
	25	187.6	144.9 2/
	November 1	183.3	137.0 2/

1/ For Rio de Janeiro and Sao Paulo.
2/ New York Banks' selling prices for cable transfers on Friday of each week.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period	Currency Issue	Government Borrowing 1/
1957: December	96.6	36.0
1958: January	94.0	6.1
February	94.6	10.9
March	96.6	13.8
April	99.1	16.9
May	101.6	19.6
June	103.4	22.6
July	103.4	23.9
August	104.3	23.2
September	108.9 2/	22.7
Week ended:		
October 4	110.1	25.4
11	110.4	26.6
18	110.4	26.4
25	110.4	26.6
November 1	111.6	25.6

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills.

2/ Data for September 27

Mr. S. Finch

November 7, 1958

G. Escobar

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25	110.4	26.6
November 1	111.6	25.6

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills.

2/ Data for September 27

NOV 4 1958

Dear Mr. Garrido Torres:

Paragraph 4 of Brazil's stand-by arrangement with the International Monetary Fund provides "that when gross purchases by Brazil total the equivalent of $54.75 million, Brazil will consult the Fund and agree with it the terms on which further purchases may be made . . ." The letter of July 25, 1958, which is annexed to the stand-by arrangement, also provides that the consultations for the purpose of paragraph 4 of the stand-by arrangement will include a complete review of the exchange system.

It had been contemplated that the above discussions would take place in Rio de Janeiro before the end of 1958. We now understand that the Minister of Finance, Mr. Lucas Lopes, expects to visit Washington during the first half of December. If our understanding is correct, we would like to suggest that the consultations referred to above be held in Washington during this period. If the holding of consultations in Washington is agreeable with you, we would appreciate being provided at that time with the data outlined in our letter of August 27, 1958, complete through the end of October and with tentative figures on the country's holdings and unutilized lines of credits in U.S. dollars and ACL currencies as of the end of November.

Please confirm by cable whether the above arrangements are acceptable.

With warmest regards, I am

Sincerely yours,

H. Merle Cochran
Acting Managing Director

cc: Mr. Cochran
Mr. Del Canto
Mr. Friedman
Mr. Gold

Mr. José Garrido Torres
Executive Director
Superintendencia da Moeda e do Credito
Av. Rio Branco 120 - 9º andar
Rio de Janeiro, Brazil

GACostanzo:eb - November 3, 1958

file

E/1

Mr. G. A. Costanzo November 4, 1958

G. Escobar

Brazil--Stabilization Plan for 1959

The following is a summary of the stabilization plan proposed by the Brazilian authorities for 1959.

1. Monetary ceilings

a. The expansion of the money supply should not exceed Cr$35.5 billion during 1959, that is, 10 per cent above the estimated total for December 31, 1958.

b. The currency issue should not increase in 1959 by more than Cr$10.5 billion, that is, about 10 per cent above the total of Cr$107.4 billion, estimated for the end of 1958.

c. The increase in the currency issue is usually effected through the Rediscount Department of the Bank of Brazil. The operations of that department are, therefore, subject to the following ceilings:

(1) Rediscounts and other credits to the commercial banks shall not exceed Cr$10.9 billion by the end of 1959. These credits are expected not to exceed Cr$8.6 billion by the end of 1958.

(2) The credit of the Rediscount Department to the Bank of Brazil should not exceed Cr$64.6 billion by the end of 1959. These credits are expected not to exceed Cr$53.9 billion by the end of 1958.

d. In order that the above ceilings be observed, a budget is proposed for the credits extended by the various departments of the Bank of Brazil during 1959. The distribution of these credits is to be based on the percentage distribution of the credits extended by the various departments of the Bank of Brazil during the last few years. However, the Department of Agriculture and Industry is exempted from any ceiling; it is expected to expand more than normally because of the need to accelerate the growth of exports.

e. The loans of the Bank of Brazil to official entities and to states and municipalities are not expected to increase; any new loans will be limited to the volume of future amortizations.

f. The amount of credit extended by the Bank of Brazil to the Treasury is expected to be relatively small because of the anticipated reduction in the fiscal deficit, and because part of the deficit is expected to be financed by noninflationary means.

CENTRAL FILES

g. In addition to the above ceilings, the Rediscount Department of the Bank of Brazil will exercise more stringent qualitative controls in the selection of commercial paper offered for rediscounting, and the payment of rediscount arrears. The discount rate will be changed depending on the conditions which exist in the money market during 1959.

2. Public finance

a. Expenditures. Total cash expenditures for 1959 shall be limited to Cr$158 billion, as follows:

(1)	Total budget expenditures	Cr$135 billion
(2)	Extrabudgetary expenditures (arrears, special funds, other expenditures, and disbursements to states and municipalities)	Cr$15 billion
(3)	Expenditures relating to the salaries of public employees and reclassification of jobs	Cr$8 billion
		Cr$158 billion

b. Receipts. Total cash receipts for 1959 are estimated at Cr$148 billion, as shown in the following table

(1)	Based on present tax structure	Cr$135 billion
(2)	Expected yield from increased income tax rates	Cr$5 billion
(3)	Expected yield from increased excise and stamp tax rates	Cr$7.5 billion
(4)	Other increases in tax collections	Cr$0.5 billion
		Cr$148.0 billion

c. Cash deficit. The total cash deficit is expected to be Cr$10 billion, and will be financed as follows: Cr$6 billion will be financed by the issue of Treasury bills; Cr$4 billion will be financed by borrowing from the Bank of Brasil.

3. Wage policy

With regard to official entities which are currently running a deficit, it is recommended that those which sell their services to the public increase the prices of these services during 1959, in such a way as to cover a large part of their deficit. Official entities which do not sell their services to the public are expected to reduce costs in order to reduce their deficit.

CENTRAL FILES

It is also recommended that if an official entity raises the salaries of its employees, it shall also increase the prices of its services in such a way as to cover increased expenditures.

4. Balance of payments

It is the purpose of the stabilisation plan to re-equilibrate the balance of payments, and eventually to produce an export surplus. For this purpose the following policies are to be adopted:

a. Gradual elimination of exchange subsidies, in such a way as to (a) eliminate the artificial stimulus which is given to certain imported goods, and (b) discourage foreign loans for investments, the productivity of which is reasonable only because of the low prices of imported equipment.

b. Subsidies which are considered necessary should be financed with budgetary revenues, rather than through special taxes on the export sector.

c. Limit new authorisations for imports financed through suppliers' credits. In view of the volume of obligations already assumed for the next three years, it is urged that any new suppliers' credits should mature after at least three years.

d. Initiating any projects for economic development which need a large amount of capital shall be subordinated to the availability of long-term foreign loans and may not be financed through short-term foreign loans.

CENTRAL FILES

OFFICIAL | OUTGOING MESSAGE | OFFICIAL

FOR PREPARING OFFICER
- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

IIMo. 11

Charges due pursuant to Article V, Section 8(c) for period ended October 31, 1958 amount to 8,239.397 troy ounces of fine gold; advice airmailed today. These charges are payable within 30 days from date of cable.

Code

Test No.

INTERFUND

Drs By DLLechliter/sl
Department Office of the Treasurer
Date November 3/58

cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

AUTHORIZATION

Signature

Second Signature When Required

DISPATCHED
NOV-3 1958
BY
CODE

FOR CODE ROOM
Time Received 11:50 AM
Time Dispatched 12:24 PM
Number of Words 13
Log 26032
Route WU
Operator RW

DO NOT TYPE BELOW THIS LINE

November 3, 1958

Gentlemen:

I am enclosing a Statement of Charges showing the amount due to the Fund by Brazil pursuant to Article V, Section 8(c) of the Fund Agreement for the period ended October 31, 1958.

The total of the charges due for this period amounts to 8,239.397 troy ounces of fine gold. It would be appreciated if you would advise the Fund at an early date regarding the arrangements made for the payment of these charges.

According to the Fund's records, the quantity of gold held as of October 31, 1958 by the Fund under earmark for Brazil in terms of Section I-1 of the Fund's Rules and Regulations amounted to 2.237 fine ounces, which, of course, may be applied towards the payment of the charges referred to above.

Sincerely yours,

Y. C. Koo
Treasurer

Enclosure

Superintendencia da Moeda e do Credito
120 Avenida Rio Branco
9° andar
Rio de Janeiro, Brazil

cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

DLLechliter/al
October 20/58

International Monetary Fund
Washington, D. C.

Statement of Charges
Pursuant to Article V, Section 8(c) and (d) of the Fund Agreement
for Period Ending October 31, 1958

BRAZIL

Calculation of Average Daily Balance of Fund's Holdings
of Member's Currency in Excess of Quota
(Quota: US$150,000,000 at $35 equals 4,285,714.286 fine ounces)

Date	Fund's Holdings		Holdings in Excess of Member's Quota		Average Daily Balance in Excess of Quota	
	In Brazilian Cruzeiros	Equivalent in Gold @647.500 Cruzeiros per fine ounce (In Fine Ounces)	In Fine Ounces	No. of Days	Month	(In Fine Ounces)
1958						
Aug. 1-31	4,162,482,826.70	6,428,544.906	2,142,830.620	31	Aug.	2,142,830.620
Sept. 1-30	4,162,482,826.70	6,428,544.906	2,142,830.620	30	Sept.	2,142,830.620
Oct. 1-31	4,162,482,826.70	6,428,544.906	2,142,830.620	31	Oct.	2,142,830.620

Calculation of Charges for the Period on the above Excess Holdings

Excess Holdings, by Segments		Rate of Charges Leviable				Total Charge Per Segment (Fine Ounces)
Date of Inception of Segment	Amount In Fine Ounces	1958 Aug.	Sept.	Oct.		
October 1, 1957	967,717.980	2%	2%	2%		4,878.359
November 1, 1957	103,684.069	2%	2%	2%		522.682
June 1, 1958	714,285.714	Free	2%	2%		2,307.475
July 1, 1958	265,437.788	Free	Free	2%		450.881
August 1, 1958	91,705.069	Free	Free	Free		
Total Excess Holdings	2,142,830.620				Total Charges for Period	8,239.397

Chief, Division of Accounts and Financial Reports

Comptroller and Assistant Treasurer

INTERNATIONAL MONETARY FUND

November 3, 1958

Mr. Cochran:

Attached is the weekly progress report on Brazil.

You may wish to forward the appended copy to Mr. Southard.

G. A. Costanzo

Mr. D. Finch October 31, 1958

G. Escobar

Brazil--Report for the Week Ended October 25, 1958

The average agio for U.S. dollars declined to Cr$ 187.6 per U.S. dollar last week, Cr$ 10.3 below the average for the preceding week. According to press accounts the free rate remained at Cr$ 144.9 per dollar as in the preceding two weeks.

The sale of foreign exchange in the Sao Paulo and Rio de Janeiro markets remained at US$ 1.7 million and ACL$ 1.3 million during the week ended October 25. These amounts have remained the same since the beginning of September when the previous totals were reduced by 20 per cent.

After increasing steadily during September the currency issue has levelled off, and was Cr$ 110.4 billion at the end of last week. This level was Cr$ 8.4 billion above the ceiling of Cr$ 102 billion proposed for December 1958 (See EBS/58/25, Sup. 3).

The Government's cash deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, rose slightly to Cr$ 26.6 billion in the week ended October 25.1/ The present level of borrowing exceeds by Cr$ 6.6 billion the Government's target to limit borrowing from all sources to Cr$ 20 billion in 1950.

1/ In 1957 Government borrowing understated the cash deficit by about Cr$ 5 billion, but during January-August 1958 it has overstated the deficit by about Cr$ 4.2 billion on the average.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period	Currency Issue	Government Borrowing 1/
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Week ended:		
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11	110.4	26.6
18	110.4	26.4
25	110.4	26.6

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills.

2/ Data for September 27.

Brazil--Exchange Market

(In cruzeiros per U. S. dollar)

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1957:	Dec.	66.8	90.5
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	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	August	154.8	159.5
	September	**196.7**	**156.3**
Week ended:			
	October 4	**178.8**	**153.8 2/**
	11	**188.4**	**144.9 2/**
	18	**197.9**	**144.9 2/**
	25	**187.6**	**144.9 2/**

1/ For Rio de Janeiro and Sao Paulo.
2/ New York Banks' selling prices for cable transfers on Friday of each week.

OCT 29 1958

Sir:

This will acknowledge and thank you for your letter of October 14, 1958 advising the Fund of the appointment of Dr. Jose Garrido Torres as Alternate Governor of the International Monetary Fund for Brazil.

Very truly yours,

Roman L. Horne
Secretary

Mr. Nibio Foltran
Acting Executive Director
Superintendencia da Moeda
e do Credito
120 Avenida Rio Branco, 9º andar
Rio de Janeiro, Brazil

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

LGouriou:lre
10/28/58

OCT 20 1958

Dear Dr. Torres:

On behalf of the Executive Directors and staff, I wish to welcome you into the International Monetary Fund as Alternate Governor for Brazil.

Sincerely yours,

H. Merle Cochran
Acting Managing Director

Dr. Jose Garrido Torres
Alternate Governor of the International
Monetary Fund for Brazil
Superintendencia da Moeda e do Credito
120 Avenida Rio Branco, 9º andar
Rio de Janeiro, Brazil

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

LGouriou:lre
10/28/58

Office Memorandum

TO : Mr. C. David Finch

DATE: October 29, 1958

FROM : G. Escobar GE.

SUBJECT : Brazil--Current Fiscal and Monetary Position With Respect to Proposed Ceilings

The ceilings proposed by Brazil in EBS/58/25, Supplement 3, are shown below in the left-hand column; the current position with respect to these ceilings is shown at the right.

A. Monetary Ceilings	Current Position
1. Bank of Brazil credit to the private nonbanking sector is subject to a graduated ceiling so that by the end of 1958 these credits will be only 5 per cent above the end of 1957 level.	1. At the end of 1957, Bank of Brazil credit to the private nonbanking sector was Cr$91.8 billion. The ceiling for December 1958 is Cr$104.8 billion, Cr$8.4 billion above the December ceiling. (August 31, the last was Cr$96.4 billion, Oct)
2. Bank of Brazil credit to states and municipalities will be limited to the level outstanding at the end of 1957.	2. Credit to states and municipalities was Cr$14.3 billion at the end of 1957; it was Cr$13.7 billion at the end of August, Cr$0.6 billion below the ceiling.
3. The level of Bank of Brazil rediscounts and other credits to commercial banks shall not exceed as of the end of each month in 1958 the level outstanding as of the end of the corresponding month of 1957.	3. Rediscounts and other credits to commercial banks have been above the ceiling in July and August. At the end of August these credits totaled Cr$16.2 billion, Cr$1.7 billion above the ceiling.
4. The currency issue was not to exceed Cr$102 billion at any time in the second half of 1958.	4. On October 18 the currency issue was Cr$110.4 billion, Cr$8.4 billion above the ceiling.
B. Fiscal Ceilings	Current Fiscal Position
1. The government cash deficit should not exceed Cr$20 billion in 1958.	1. On October 18, the cash deficit was Cr$26.4 billion.1/ This level is Cr$6.4 billion above the ceiling, and represents an annual rate of about Cr$32 billion.

&.

1/ The cash deficit as measured by the Treasury's net position at the Bank of Brazil plus the issue of Treasury notes. During January-August 1958, Government borrowing has overstated the deficit by Cr$4.2 billion on the average.

Mr. C. David Finch

October 27, 1958

B. Brovedani

Brazil--Review of Economic Trends

Introduction

The Brazilian economy expanded at a sustained rate in the post-war period, with a growth of real income per head of about 3.5 per cent per year on the average. The high level of imports required by this sustained rate of growth, could be met through a pronounced improvement in export prices, the utilization of foreign exchange balances, accumulation of arrears and resort to foreign loans and investments. The sharp decline in export receipts during 1957/58, resulting from difficulties relating to coffee exports, is now causing serious strain. It occurs when exchange balances are depleted, and the load of servicing the short-term foreign debt is acquiring large proportions. Furthermore, the reliance of Brazil on imports of fuel and raw materials has added to the rigidity of its external payments position.

The economic growth of the recent years took place in a climate of inflation and of credit expansion, with a rate of price rise averaging about 10 per cent per year during 1946/52, and 20 per cent since then. Credit and money supply rose at an even higher rate. The free exchange rate for the dollar, however, fell by only 6 per cent per year during 1953/56. In 1957 and during the current year, the degree of rate depreciation became extremely sharp, as a result of the difficult external payments position. In fact, the free exchange rate, expressed in cruzeiros per dollar, rose by 38 per cent in 1957, and by a further 76 per cent from December 1957 through August 1958. This compares with a rise in prices in Brazil of 20 and 9 per cent respectively.

The rate of growth and the level of investments tended to be higher during 1950/52, when imports were expanding, prices for major exports stable and the rate of inflation less acute. The deficit of the balance of payments gave rise in that period to the problem of accumulation of arrears with imports maintained at a level about 13 per cent higher than the 1950/57 average.

The period 1953/56 was characterized by the ample fluctuations in the prices of major exports, by lower imports in view of the need to repay the arrears, and by more pronounced rate of inflation. Imports were 9 per cent below the 1950/57 average, and there was a diminution of the rate of growth of real income per capita from 5.7 during 1950/52 to 1.9 per cent. During 1953/56 Brazil made progress in the amortization and refinancing of its foreign debt, and in the reconstitution of its foreign exchange reserves. However, inflationary pressures were more pronounced as indicated by the rate of credit expansion which amounted to about 25 per cent per year. The improvement in the external payments position explains the comparative stability of the exchange rate in the free market. The favorable balances on current transactions in 1955 and 1956 were applied to the repayments of foreign debts

arising from the external disequilibrium during 1950/54, and to the reconstitution of foreign exchange balances of the monetary authorities, which rose by $200 million.

During 1957, and to an even greater extent in the current year, Brazil is being faced with a major payments crisis, owing to the deterioration of the position of its main exports in the world market. Annual receipts from exports of coffee, cocoa and cotton declined from about $1,200 million, on an average, during 1953/56 to $960 million in 1957; during the first half of 1958 these exports were moving out at an annual rate of only US$758 million.

This drop in receipts from major exports was in part offset by a rise of minor exports, primarily of lumber, minerals and sugar, estimated at about $132 million for 1957. Other favorable factors in 1957 and 1958 were the expansion in foreign investments, resulting from the measures taken by the Brazilian Government in 1955, and the increase in foreign lending, chiefly in the form of suppliers credits. However, the payments difficulties appear particularly serious considering the increasing burden of the foreign debt, the practical exhaustion of foreign exchange balances, and the rigidity of certain payments of basic imports of fuel and of food.

At present Brazil is faced with a major exchange crisis, with internal inflation and a sharp depreciation of the exchange rate. Inflationary pressures have continued at approximately the same rate as in the recent past. The rise in real per capita income also continued, and for 1957 is estimated at about 5.5 per cent compared with 4.3 per cent per year on the average during 1953/56.

The coffee crops of the last two agricultural years were very large, much in excess of exports and of domestic consumption. The accumulation of coffee stocks in Brazil, and the problem of their financing now constitutes one of the most important internal problems facing the Government. On the one hand falling prices for coffee have weakened the external payments position of Brazil, and the ensuing depreciation of rates for major exports and for imports constitute new elements of strain. On the other hand, the program of basic investments of the Government requires growing resources both in foreign exchange and in local currency, and its execution results in evident strains and stresses on the Government's fiscal position.

In mid-1958 the Brazilian authorities discussed with the IMF a program of economic stabilization, designed to arrest the monetary expansion by combatting its chief factors, i.e. the fiscal deficit, credit expansion and the coffee surplus. The program was accompanied by the adoption of measures tending to simplify the Brazilian exchange system.

1. The Program of Economic Stabilization

The economic program indicated to the Fund at the time of the negotiations leading to the stand-by agreement as later revised (see SM/) includes an up-to-date estimate of the Brazilian payments gap in dollars and ACL

currencies for 1958, a plan of action to tackle the problem of the surplus coffee production and of its financing and a general program of fiscal and monetary policies of stability.

(1) The payments deficit

The 1958 payments gap in official market exchange transactions with the dollar and ACL currency areas was estimated last July at $330 million, compared with a deficit of $200 million estimated a month earlier. The upward revision resulted from a reduction of the estimates of exchange earnings from exports and from an increase in the estimates of payments, due to a reappraisal of short-term obligations falling due in the course of the year. This payments gap is not strictly comparable with similar balance of payments magnitudes because (1) it concerns only the official market, (2) it covers foreign exchange transactions, (3) it is confined to the dollar and ACL currency areas, and (4) it includes amounts generally classified as deficit financing items. For analytical purposes a distinction can be made between the deficit in goods and services transactions and long-term capital movements, including (over-all payments gap) or excluding (deficit) transactions effected in order to finance a deficit such as balance of payments loans, drawings on the IMF, SWAP transactions etc. Excluding the latter transactions, the 1958 deficit comes to $220 million; $84 million is for repayment of balance of payments loans of the Export-Import Bank ($45.6 million) and of the International Monetary Fund ($37.5 million). The rest are repayments of SWAP transactions and of other loans of similar nature in ACL currencies. The deficit in convertible currencies was estimated at $161 million, and in ACL currencies at $59 million.

The over-all payments gap will be financed chiefly with medium-term loans obtained in August 1958 from the Ex-Im Bank and from New York commercial banks of $158 million, IMF drawings of $75 million ($37.5 to effect a repurchase), a net utilization of $16.5 million of lines of credit with commercial banks in the United States, and the use of $42.7 million of foreign exchange balances. The financing of the deficit in ACL currencies is still to be provided for.

The deficit of $219 million compares with one of $184 million in 1957, and with a surplus in 1956. The weakening of the balance of payments, which this indicates, is explained by the falling off of export receipts, an increasing burden of the foreign debt and the difficulty of curtailing import payments for the inflexible character of the bulk of them. Inflationary pressures have made this payments crisis even more intractable. The Brazilian authorities are also committed to restrict new authorization of suppliers' credits in convertible and ACL currencies during 1958, to the amount of repayments of the principal and to highly essential projects when repayment schedules allow for a three-year period of grace.

(2) Coffee financing

The export crop of coffee for the 1958-9 season is expected to amount to 26-27 million 60 kilo bags. Forty per cent of this crop is to be retained, and the remaining 16 million bags to be exported. Ten per cent of

the crop, consisting of inferior grades, is to be surrendered for a nominal price of Cr$100 per 60 kilo bag; 30 per cent of the crop is to be purchased at the rail head at low prices, varying from a minimum of Cr$950 to a maximum of Cr$1,950 per bag, according to quality.

The income of coffee producers was increased as a result of adjustments in the system of calculating the variable bonus paid to exporters in addition to the rate of 37 cruzeiros per dollar. This bonus amounts to 3 per cent of total cruzeiro receipts for each dollar by which the price per bag exceeds $40. The effective rate rises with any increase in prices and falls with a decline. However, it was calculated that the total amounts to be disbursed in cruzeiros to coffee producers in the course of the 1958/59 coffee season, will be roughly equivalent to the amounts paid out in the 1957/58 season. This is because the depreciation of the rate is offset by the decline in foreign prices and by the lower amounts paid to producers for the part of the crop which is retained.

2) ~~(3)~~ Fiscal and monetary policies

Various targets were set on important economic magnitudes, including the actual fiscal deficit for 1958, Bank of Brazil lending to banks, to the Brazilian States, and to the private non-banking sector and the monetary issue. In addition it was contemplated to restrict banks' liquidity through an increase in legal reserve ratios. The various ceilings were as follows: (1) the fiscal cash deficit for 1958 should not be in excess of Cr$20 billion, (2) total lending by the Bank of Brazil to states and municipalities should not exceed, at any time in 1958, the amounts outstanding at the end of 1957, (3) the expansion of loans in 1958 by the Bank of Brazil to the private non-banking sector is to be kept to a maximum of 5 per cent over the level of December 1957, so that the amounts outstanding should never exceed Cr$96.4 billion, (4) the outstanding amount of rediscounts and emergency loans to commercial banks should not exceed in the various months of 1958, those of the same month in 1957, (5) currency issue by the Central Bank should not exceed Cr$102 billion by the end of 1958.

In addition to these "ceilings" the Brazilian monetary authorities intended to increase the legal reserve ratios of commercial banks from 6 to 14 per cent for time deposits, and from 12 to 24 per cent for demand deposits. When this legislation is passed, the monetary authorities propose to enforce 50 per cent marginal reserve requirements on new deposits, until the new reserve requirements are satisfied.

3. Main Economic Developments and Trends in 1958

(1) The external payments gap

The Brazilian authorities expected an over-all payments gap in dollar and ACL currencies for 1958 of $330 million, and a "deficit" in a less inclusive definition of $220 million, resulting from estimated export receipts of $988 million, and from payments for imports services and for the amortization of

the foreign debt of $1,208 million; repayments of balance of payments loans of short maturity of $110 million should be added to obtain the over-all payments gap of $330 million.

In Table 1 below the estimates of the "deficit", as defined above, for the first half of 1958, are compared with the actual data for the same period, for convertible and ACL currencies.

Table 1. Brazil--Exchange Transactions in the Official Market 1/ (first half of 1958)

(In millions of U.S. dollars)

	Totals		Convertible Currencies		ACL Currencies	
	Estimated	Actual	Estimated	Actual	Estimated	Actual
Export receipts	460	424	307	279	153	145
Import and service payments	-479	-472	-327	-329	-152	-143
Capital repayments	-106	-112	-70	-72	-36	-40
Totals, net	-125	-160	-90	-122	-35	-38

1/ Balance of payments loans and repayments are not included

The payments "deficit" was larger during the first half of 1958 than the Brazilian authorities had estimated last July, by $32 million. The deficit in convertible currencies was $122 million compared with an estimated $90 million.

Table 2 below shows the comparable data on all exchange transactions for the recent years, transactions with the bilateral account area are also included, and the totals for the first half of 1958 are higher than the amounts shown in Table 1. Since, however, transactions with the bilateral account areas are roughly balanced, the deficit for the first half of 1958 is only $10 million higher than in Table 1. (Actual results).

Table 2. Brazil--Actual Receipts and Payments (-) in the Official Market

(In millions of U.S. dollars)

	1956	1957	First half 1957	First half 1958
A. Export receipts	1,452	1,366	614	565
B. Import payments	-1,124	-1,214	-621	-558
C. Services, net	-118	-140	-76	-45
D. Capital repayments 1/	-142	-195	-86	-132
Totals, net	68	-183	-169	-170

1/ Balance of payments loans are excluded

The "deficit" amounted to $183 million in 1957, with the bulk occurring in the first half ($169 million) and to $170 million during the first half of 1958. During the second half of 1957 the payments position improved, thanks to an increase in exports and a reduction in payments.

The deterioration in 1958 compared with 1957, resulted from a decline in coffee export receipts of $66 million, largely offset by an increase in receipts from minor exports, and by a reduction of $63 million in imports payments through the auction market ($20 million) and through the preferential market. Payments for services declined from $76 million in 1957 to $45 million in 1958, but the disequilibrium mostly resulted from the large capital repayments effected in the first half of 1958 for $132 million, compared with $86 million during the first half of 1957. The burden of the repayments of the short-term debt, and of suppliers' credits is increasingly felt, even disregarding the shorter maturities classified as balance of payments loans (IMF, Ex-Im Bank, SWAP etc).

For the second half of 1958 the Brazilian authorities estimated a "deficit" of $94 million, of which $71 million is in convertible currencies and $23 million in ACL currencies (see Table 3 below). If the actual deficit for the first half is added to the estimated "deficit" of the second half, the over-all deficit for 1958 can now be placed at $264 million compared with an original estimate of $220 million.

It is doubtful whether the export target of $528 million for the second half of 1958, in convertible and ACL currency, can be attained in the light of recent trends. Assuming exports to the bilateral currency

area at the same level as in the first half of 1958, this is equivalent to a total value of exports of $670 million in the second half of 1958, compared with $565 million during the first half of the year.

Table 3. Brazil--Estimate of Exchange Transactions 1/
(second half of 1958)

(In millions of U.S. dollars)

	Totals	Convertible Currency	ACL Currency
Exports	528	360	168
Imports and services	-426	-266	-160
Capital, net	-96	-65	-31
Total	-94	-71	-23

1/ All currencies

During July/September 1958 coffee exports amounted to about 2.7 million bags. They were flowing out at the same rate as in the first half of the year, when about 5.3 million bags were exported. However, the volume of coffee exports tended to increase in September, and the conclusion of the coffee agreement of Latin American producers may warrant the expectation that an export quantum of perhaps more than 1 million bags per month may be maintained throughout the end of the year. Thus the quantum of coffee exports should, in the second half of 1958, be somewhat higher than during the first half, an improvement which is in large part offset by the decline in average prices from about $62 per bag during the first half of the year, to about $53 per bag in July and more recent months. Most other exports should increase seasonally during the second half of the year, thus pointing to a moderate rise in export receipts during the second half of 1958, although it is still difficult that the export target of about $670 million be attained. If exports should fall short of this amount, the estimated deficit of $264 million would be correspondingly exceeded.

Table 4 below indicates the manner in which the payments "deficit" were financed in 1957 and during the first half of 1958.

Table 4. Financing of the External Payment Deficit

(In millions of U.S. dollars)

	1957	First half 1958
Drawings on IMF	37.5	37.5
Use of foreign exchange	87.0	54.0
Foreign loans	16.0	69.0
SWAP	9.0	-10.0
Other	33.5	20.0
Total deficit	183.0	170.0

The IMF provided $37.5 million in 1957 and during the first half of 1958; foreign exchange balances in dollars and other currencies were utilized to the extent of $87 million in 1957, and $54 million during the first half of 1958. Brazil drew on the lines of credit opened by commercial banks in New York for $60 million in 1957, and $69 million during the first half of 1958. SWAP transactions and short-term loans from European countries were also used.

The over-all gap in the balance of payments for 1958, estimated at $330 million, would increase to an estimated $368 million, if the actual results for the first half of the year, rather than the estimates, are taken into account.

In August 1956, Brazil obtained a loan of $100 million from the Ex-Im Bank, repayable with three years of grace and five years of amortization during 1961/65. The first tranche of $40 million was drawn immediately to help reconstitute the lines of credit to the United States, while the remaining $60 million was to be drawn down at the rate of $15 million monthly, during September/December 1958. Furthermore, the Brazilian Government obtained an additional loan of $58 million from private U.S. banks for a period of about three years. Part of this money will be applied to restoration of lines of credit with the U.S. banks.

The estimated over-all payments gap for 1958 of $368 million, is arrived at as follows:

Table 5.

	First half (Actual)	Second half (Estimated)	Total (Partly Estimated)
Current Items			
(a) Current receipts	424	528	952
(b) Current payments	-472	-426	-898
(c) Capital	-112	-96	-208
Net	-160	-94	-254
Balance of Payment Items			
(1) IMF repurchase	-22.8	-37.5	-37.5
(2) Ex-Im Bank repayments	-21.5	-22.8	-45.6
(3) SWAP	-1.8	—	-21.5
(4) Commercial arrears	—	-8.4	-10.2
Over-all payments gap	-206.1	-162.7	-368.8

The following table indicates the probable sources of financing.

Table 6. Financing of the 1958 Payments Deficit

	Millions of US$
1. Ex-Im Bank (loan of August 1958	100.00
2. Loans of commercial banks (August 1958)	58.00
3. U.S. banks, lines of credit	16.5
4. Cash balances	54.0
5. IMF (including refinancing) 1/	75.0
Total	303.5

1/ Assuming that the stand-by can be used to refinance repurchase

There would remain a deficit of about $65 million, for which no financing appears to have been found, which would increase if the export targets for the second half of the year are not attained. Lines of credit with New York banks would be available for a total amount of short-term credit of an estimated $

At the end of June 1958, the international monetary reserves available to the Brazilian monetary authorities consisted of $325 million in gold, about $200 million of which is pledged as a collateral for a loan, of $115 million of bilateral balances and ACL currencies, and of $5 million in dollars.

Table 7 below indicates the extent of the decline in gross monetary reserves in the recent years.

Table 7. Gross International Reserves 1/

(In millions of U.S. dollars)

	1953	1954	1955	1956	1957 I	1957 II	1957 III	1957 IV	1958 I	1958 II
Gross International Reserves	603	479	484	611	573	448	442	474	363	445
Gold holdings	321	321	323	323	324	324	324	324	324	325
Foreign Exchange Assets	282	158	161	288	249	124	118	150	39	120
U.S. dollars 2/		38	30	101	98	24	9	25	6	5
Other		120	131	187	51	100	109	125	33	115

1/ End of period data
2/ Includes a small amount of Swiss francs

2. The Deterioration in the Current Fiscal Position

The most pressing problem confronting the monetary authorities is to arrest deficit financing, the major factor of inflation. Tax revenues appear inadequate to finance the large public investment program, and the growing level of current expenditures.

The 1958 budgetary estimates assumed a 20 per cent rise of the price level and of tax revenues. Although during the first half of 1958 tax revenues were about 33 per cent higher than during the first half of 1957, the deficit rose from about Cr$16 billion to Cr$20.5 billion, as shown in Table 8 below.

Table 8. The Fiscal Position (1957/58)

(In billions of cruzeiros)

	January/ June 1957	January/ June 1958	Percentage Increase
1. Revenues	32.0	42.6	33.1
2. Expenditures	-38.6	-51.1	32.4
Net deficit	-6.6	-8.5	28.8
3. Extra-budgetary expenditures	-6.3	-8.8	39.7
4. Payments of carry-over	-3.0	-3.2	6.7
Total	-15.9	-20.5	28.9

Excluding extra-budgetary expenditures, the deficit rose from Cr$6.6 billion during the first half of 1957, to Cr$8.5 billion during the first half of 1958. Extra-budgetary expenditures, including additional appropriations, transfers and payments of the carry-over, increased from Cr$9.3 billion to Cr$12 billion.

The deficit for the first half of 1958 was financed in part by the issue of Treasury notes to commercial banks (Cr$13.4 billion) and for the rest by net advances of the Bank of Brazil (about Cr$7.1 billion). Loans of the Bank of Brazil to the Treasury indicate additional deficits of Cr$1.3 billion in July, Cr$2.5 billion in August, and Cr$2.2 billion in September.

Normally there is a pronounced increase of expenditures during the last quarter-year and a seasonal expansion of the deficit; in 1957 deficit financing by the Bank of Brazil amounted to about Cr$23 billion in the last quarter of the year. Thus it appears very difficult to limit the deficit for 1958 to the level of last June, as required by the stand-by ceiling.

(a) The short-fall of revenues

Revenues for 1958 were estimated at Cr$130 billion; however, an examination of available data appears to indicate a short-fall of about Cr$20 billion by the end of the fiscal year.

The ratio between tax collections for the first half of 1957 and total collections was 37.4 per cent; if the same ratio is applied to the current year data, an estimate of Cr$114 billion for the full year 1958 is obtained.

Table 9 below compares estimates for five-twelfths of the total budget with the actual results during January/May, and shows that for a group of taxes which should rapidly adjust to rises in the price level, collections were 23 per cent less than estimated, while for a group of taxes less responsive to inflation, they were 67 per cent below estimates.

Table 9. Tax Revenues; Comparison with Estimates (January/May 1958)

	5/12 Estimates	Actual	Percentage Difference
Revenues			
Group A 1/			
Consumption tax	116.1	13.6	-15.5
Stamp tax	4.7	4.3	-8.5
Customs	8.8	3.9	-65.7
Fees	1.4	1.2	-14.3
Miscellaneous	1.6	2.1	+31.3
Profits	1.1	0.8	-27.3
Total	33.7	25.9	-23.2
Group B			
Income tax	15.7	5.2	-78.8
Electricity	0.6	0.5	-16.7
Real Estate taxes	1.2	0.3	-75.0
Extraordinary income	2.9	0.7	-75.9
Total	20.4	6.7	-67.2
Grand total	54.1	32.6	-39.7

1/ Under Group A were classified revenues which should rise together with the general level of prices - under Group B those revenues which lag behind

Collections lagged behind estimates, particularly in respect to income, real estate and extraordinary income taxes. Customs revenues were 66 per cent below estimates.

(b) Expenditures

Expenditures of Cr$150,2 billion were authorized up to the end of May for 1958. Table 10 below compares these estimates with the level of actual expenditures during the period January/May 1958. Only 68 per cent of budgeted expenditures for the first five months were actually effected; the percentage is likely to rise rapidly in the second part of the year.

Table 10. Government Expenditures: Comparison with Estimates

	1958 Budget Estimates	5/12 of 1958 Budget Estimates	Actual Expenditures January/May	Percentage of Actual Expenditures to Estimates
a) Congress, Presidency, Dasp	7.568	3.153	1.315	41.7
b) War Ministries, Air, Navy	40.175	16.740	14.507	86.7
c) Education	9.497	3.957	2.658	67.2
d) Finance Ministry	26.677	11.115	7.127	64.1
e) Public works	41.957	17.482	12.488	71.4
f) All others	24.306	12.748	4.676	36.7

Extraordinary expenditures not included above are estimated at close to Cr$20 billion for 1958. They consist of payments of the carry-over, of extraordinary appropriations and transfers to branches of the administration. During January/May 1958, about 27 per cent of current expenditures were for the War Ministry and for Air and Navy, 28 per cent for Public Works, and about 15 per cent for the Ministry of Finance. The large public work expenditures are mostly applied to the Brazilian investment program. It is estimated that about 7.6 per cent of national income in 1958 is to be invested in this plan of development, in part to be financed by resort to foreign loans (about 1.6 per cent of Brazilian national income) and in part by the three levels of Government, and private enterprise. The burden on the Governmental budget of these investment outlays, (including repayments on the foreign debt contracted for that purpose) threatens to jeopardize the success of the stabilization program.

3. The Monetary Expansion

The rate of expansion of currency issue (notes in circulation with the public and banks) continued high; the total quantum of money supply grew at an even higher rate. In each quarter of 1958, the rate of expansion of monetary issue was more than in the comparable 1957 quarter. In the second quarter of 1958 currency issue grew by 6.6 per cent, compared with 4 per cent last year, and it appears from preliminary data that the expansion in the third quarter may have reached 6.5 per cent, compared with 5.2 per cent last year. Barring a change of trend, the fourth quarter should witness an expansion of more than the 10 per cent experienced in 1957.

Table 11. Rate of Increase of Currency Issue and of Money Supply

	Issue		Money Supply	
	1957	1958	1957	1958
First quarter	-0.6	0.1	2.9	4.4
Second quarter	4.0	6.6	5.3	6.3
Third quarter	5.2	6.4*	7.9	
Fourth quarter	9.7	___	14.5	___
Full year	19.6		33.9	

* Estimated

The growth of money supply was generally at a higher rate, and the ratio of deposits to money supply increased. During the first quarter of 1958 for instance, currency issue rose by only .1 per cent, and money supply by more than 4.4 per cent; the fact that commercial banks often hold large excess reserves which are used during certain periods of the year, explains this difference in trends.

(a) The primary expansion

The main factors for the increase of currency issue were a) Central Bank's lending to the Treasury, b) financing of excess coffee production, and c) lending of the Bank of Brazil to the private sector, as shown in Table 12 below.

Table 12. Analysis of the Balance Sheet of Monetary Authorities. (Changes expressed as percentages of total currency issue of previous quarter)

	I	II	III	IV	I	II
1. Fiscal deficit	6.7	6.6	6.5	26.0	-1.6	6.6
2. Coffee financing	0.1	1.2	4.8	7.3	7.3	4.1
3. Lending to private sector	1.1	6.1	9.2	3.5	2.2	7.7
Totals	7.9	14.1	20.5	36.8	7.9	18.4
4. Foreign sector	-5.3	-11.5	-5.1	-0.5	-10.1	-6.6
5. All others	0.3	1.2	-0.1	-4.3	-3.8	-3.4
Total, non-banks	£2.9	£3.8	£15.3	£32.0	-6.0	8.4
6. Banks	-2.4	2.0	-3.6	-17.7	£7.5	0.7
Total	0.5	5.8	11.7	14.3	1.5	9.1
Currency issue	-0.6	4.0	5.2	9.7	0.1	6.6
Monetary deposits	1.1	1.8	6.5	4.6	1.4	2.5

(i) During each of the first three quarters of 1957, deficit financing was responsible for an expansion of issue of 6 per cent; this factor of expansion rose to 26 per cent in the fourth quarter. During the first quarter of 1958 the Treasury could reduce its debt with the Bank of Brazil, because of the flotation of Treasury bills to commercial banks. In the second quarter the inflationary impact was about the same as during the second quarter last year.

(ii) In 1957 coffee financing became one of the major expansionary factors. The increase of the coffee crop and the reduced exports resulted in the accumulation of unsold inventories which required some form of financing.

The 1957/58 coffee crop amounted to 21 million bags, with a total value in cruzeiros estimated at Cr$48.6 billion. The current crop is now estimated at 26.8 million bags, with a total value of Cr$51 billion. The purchase prices for the excess production (40 per cent) are now lower than for the previous crop. Also, the decline in foreign prices was offset by a devaluation of the exchange rate. The total value of the current crop is about 5 per cent higher than for 1957/58. Considering the increase in domestic prices (about 20 per cent) this will imply a slight reduction in real income from coffee. However, this estimate assumes exports equivalent

to 16 million bags. If they fall short of this, the Brazilian Government is to purchase the shortfall at the end of the crop year in July 1959, at prevailing export prices. This may increase the cost of the coffee program beyond the estimated Cr$51 billion.

Coffee financing was a major

~~Table 12 shows the increase of this~~ inflationary factor towards the end of 1957, and during the first quarter of 1958, when it was equivalent to 7.2 per cent of currency issue. Most of the purchases of the 1958/59 surplus will be effected during the latter part of 1958, and no decline in the inflationary impact of this factor can reasonably be expected. The total net cost of surplus purchases in 1958 are estimated at Cr$9.2 billion; Cr$4.2 billion are to be spent on the purchase of what is left of the 1957/58 crop.

(iii) Lending by the Bank of Brazil to the private sector is, normally, another important factor of expansion. Seasonally it reaches a peak during the third quarter of each year. In the second quarter of 1958 this lending, expressed as a percentage of monetary issue, amounted to 7.7 per cent, compared with 6.3 per cent in the second quarter last year. Seasonality is most pronounced in lending for trade purposes, and is linked with the need of financing the coffee export trade, particularly for the period between harvesting and exports.

(iv) The effective contractionary factor was the external payments deficit, estimated at some $400 million for 1958. The spread between average selling and buying rates increases the profits from exchange transactions. The major determining factors are the exchange rate structure, the level of the auction rates, and the size of the deficit. As a percentage of the currency issue, the deflationary impact amounted in the second quarter of 1957, and in the first quarter of 1958, to 11.5 and 10 per cent respectively. The impact was less in the second quarter of 1958, due to the increase in exports, and the reduction in the deficit.

The stabilization program provided for the limitation of the fiscal deficit to a maximum of Cr$20 billion, for a ceiling on lending by the Bank of Brazil to the private sector of 5 per cent over the amounts at the end of 1957. Other ceilings concern Bank of Brazil lending to states and municipalities and to banks.

Lending by the Bank of Brazil to the private sector increased from Cr$91.8 billion in December 1957, to Cr$101.5 billion in July 1958, and was at that date 10.5 per cent above the December 1957 level. The fiscal deficit was, in June, larger than Cr$20 billion. Rediscounts to banks (see Table) were at Cr$23.6 billion in June 1958, compared with Cr$12.7 in June 1957.

Commercial bank deposits normally reach a peak by the end of the year, when commercial banks accumulate excess reserves. The Brazilian authorities had intended at the time of the stand-by to reduce available banks reserves by increasing the legal reserve ratios. However, this measure

which requires congressional approval, was not yet taken. The existence of excess reserves of commercial banks reduces the degree of control of the monetary authorities on the monetary situation. Total bank deposits increased from Cr$21.2 billion in the first quarter of 1957, to Cr$38.8 billion in the last quarter; in July 1958 they amounted to Cr$33.1 billion.

INTERNATIONAL MONETARY FUND

October 28, 1958

Mr. Cochran:

This is the weekly progress report for Brazil, the week ended October 18.

The appended copy is for Mr. Southard.

G. A. Costanzo

Mr. C. David Finch

October 27, 1958

C. Escobar

Brazil--Report for the Week Ended October 18, 1958

After declining to Cr$178.8 per U.S. dollar in the first week of this month, the average agio for U.S. dollars began to increase again, reaching Cr$197.9 per U.S. dollar in the week ended October 18. This rate was still below the peak rate attained during the first week of September. According to press reports, the free rate, at Cr$144.9 per U.S. dollar, was the same as that of last week.

The sale of foreign exchange in the São Paulo and Rio de Janeiro auction markets remained at US$1.7 million and AC/$1.3 million during the week ended October 18. These amounts have been the same since the beginning of September when the previous totals were reduced by 20 per cent.

The currency issue which increased steadily during September and the first part of October, was Cr$110.4 billion on October 18, unchanged from the preceding week. This level was Cr$8.4 billion above the ceiling of Cr$102 billion proposed for December 1958 (see BUS/58/25, Supplement 3).

The Government's cash deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, declined slightly to Cr$26.4 billion on October 18.1/ The present level of borrowing exceeds by Cr$6.4 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by Cr$5 billion, but in 1958 it has overstated the deficit by about Cr$3.4 billion on the average.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period	Currency Issue	Government Borrowing 1/
1957: December	96.6	36.0
1958: January	94.0	6.1
February	94.6	10.9
March	96.6	13.8
April	99.1	16.9
May	101.6	19.6
June	103.4	22.6
July	103.4	23.9
August	104.3	23.2
September 2/	108.9	22.7
Week ended:		
Oct. 4	110.1	25.4
11	110.4	26.6
18	110.4	26.4

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills.

2/ Data for September 27.

Brazil--Exchange Market

(In cruzeiros per U. S. dollar)

		Agio for US$ 1/ (Monthly average)	Free Market Rate (end of period)
1957:	Dec.	66.8	90.5
1958:	Jan.	96.1	97.5
	Feb.	113.0	99.5
	Mar.	121.6	106.8
	Apr.	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	August	154.8	159.5
	September	196.7	156.3
Week ended:			
	Oct. 4	178.8	153.8 2/
	11	188.4	144.9 2/
	18	197.9	144.9 2/

1/ For Rio de Janeiro and Sao Paulo.
2/ New York Banks' selling prices for cable transfers on Friday of each week.

Mr. J. Del Canto

October 24, 1958

B. Brovedani

Fund Relations with Brazil

Brazil is an original member of the Fund with a quota of $150 million. In the past years, beginning in 1949, Brazil frequently used the Fund's resources. Total drawings amounted to $260.7 million, and repurchases to $148.2 million. The first drawing on the gold tranche of $37.5 million was made in 1949; other drawings were made in 1951, 1952 and 1953. By the end of 1956 the Fund's holdings of Brazilian currency was re-established to 75 per cent of quota. In 1957 Brazil drew its gold tranche, and in June 1958 the Fund and Brazil entered into a one year stand-by agreement for an amount of another $37.5 million. On the basis of this arrangement, the Fund's holdings of Brazilian currency may increase to 150 per cent of quota. Brazil drew $37.5 million on June 4, and $17.5 million on July 8; the last drawing was applied to a repurchase of a similar amount against the 1957 drawing. The stand-by agreement provides that when gross purchases under the stand-by total the equivalent of $54.75 million, as at present, Brazil will consult the Fund and agree with it the terms on which further purchases may be made under this stand-by agreement. In December 1958 Brazil has a repurchase obligation of $20 million.

The last Article XIV Consultations with Brazil were held in Rio de Janeiro in November 1957. The staff report and recommendations (SM/58/7, 1/22/58 and Supp. 1, 5/28/58) were discussed at Board meeting 58/24, June 2, 1958. At that time the Executive Board also approved a request from Brazil for the one year stand-by arrangement mentioned above (see EBS/58/25). On July 25, 1958 Brazil submitted to the Fund a proposal on certain modifications in the letter annexed to the stand-by arrangement, which was discussed and approved by the Board at meeting EBM/58/40, July 30, 1958. In connection with its work, the staff discussed general policy problems chiefly with the Minister of Finance, the Executive Director of SUMOC and the President of the Bank of Brazil, while technical conversations were held with the technicians of SUMOC, of the Finance Ministry and of other nationally important organizations, such as the Bank of Brazil, the Coffee Institute, the National Petroleum Company, the Development Bank and the Getulio Vargas Foundation. Minister of Finance of Brazil since July 1958, is Mr. Lucas Lopes, previously connected with the Government of the state of Minas Gerais, Minister of Roads in previous national administration, and Director of the National Bank of Economic Development, and General Secretary of the National Development Council with the present Administration. The Executive Director of the Superintendency of Money and Credit is Mr. Jose Garrido Torres. The Minister of Finance is the Governor of the Fund, and Mr. Torres the Alternate Governor.

In connection with the stand-by arrangement of last June and July, the Brazilian authorities addressed a letter to Mr. Jacobsson expressing their economic policy objectives. They include overall limits to public

financing of "surplus" coffee production, and to the cash deficit of the Federal Government for 1958 (Cr$20 billion).

The monetary authorities intend to subject Bank of Brazil credit to the private non-banking sector to a graduated ceiling, so that by the end of 1958 these credits will be only 5 per cent above the end of 1957 level. Furthermore, Bank of Brazil credit to States and municipalities should not expand beyond the level reached at the end of 1957; rediscounts by the Bank of Brazil to commercial banks should not exceed, during each month of 1958, the level outstanding as of the end of the corresponding month in 1957. Other measures were to be taken to reduce liquidity; they were to consist of increases of the rediscount rate, and of banks' reserve ratios. Furthermore, it was provided that if currency issue should exceed, at any time, in the second half of 1958, a total of Cr$102 billion, new measures would be taken.

The Brazilian authorities also informed the Fund that the deficit in the balance of payments for 1958 should be estimated at about $330 million. Loans in the United States for $158 million were obtained in August to cover a substantial part of this deficit. Brazil is also committed to restrict total suppliers' credits from abroad to the level of December 1957.

BBrovedani:bjw

Aide Memoire

Fund Relations with Brazil

Brazil is an original member of the Fund and has a quota of $150 million. It is availing itself of the transitional arrangements under Article XIV. Due to internal considerations, Brazil delayed the establishment of an initial par value with the Fund until 1948. The parity of Cr$18.50 established at that time is still technically in effect. In the early days of the Fund, relations with Brazil were carried on through the Executive Directors, until the first staff team, headed by the Managing Director, Mr. Gutt, visited the country in November 1948. Shortly thereafter, an informal staff mission went to Brazil for technical studies relating to exchange controls and the problem of payment arrears. Since then, there have been reasonably frequent missions and visits, including visits of the Managing Directors (Mr. Rooth and Mr. Jacobsson), the Deputy Managing Director (Mr. Cochran), and other senior officials. On several occasions the Fund rendered technical assistance to Brazil at the Government's request. This first occurred in 1951, when a staff team headed by Mr. Bernstein prepared a comprehensive report on inflation in Brazil, covering the period 1940-50, with recommendations as to appropriate policies designed to stabilize the economy. The present Managing Director of the International Monetary Fund, Mr. Per Jacobsson, visited Brazil in August 1957, accompanied by the Director of the Western Hemisphere Department.

In recent years Fund relations have been characterized through the Article XIV Consultations and direct negotiations in Washington. Article XIV Consultations were held in 1952, 1954, and 1957 in Brazil, while the 1953 Consultations were held in Washington at the time of the Annual Meeting. There have been no consultations for 1955 and 1956, but the 1954 Consultations took place in April 1955. A Fund mission will visit Brazil in the latter part of November to discuss the status of the financial program which Brazil submitted to the Fund as part of the June loan agreement and also to review the prospects for internal and external financial stability in 1959.

As to the exchange system now in effect, so-called "auction system", the Fund approved the establishment of the free market by Brazil early in 1953 on the basis of a study made by a staff mission on the spot. The auction system for imports was added later in the year, shortly after the Executive Board had dealt with the 1953 Consultations. The Executive Board then reopened the consultations decision pending further contacts with Brazil. Somewhat later, it finalized the decision, with the understanding that the new exchange system was a temporary measure of an emergency character and that a Fund mission would proceed to Brazil for further study. This mission was primarily fact-finding and concerned itself chiefly with the operation of the exchange system and the general economic situation. During the stay of the mission, the former Managing Director, Mr. Rooth, visited Brazil and held discussions with the President of the Republic and the top financial officials. The basic exchange

system adopted at that time is still in effect, though with numerous modifications, and has been accepted by the Fund in subsequent consultations. The changes in the exchange system have in some, but not all, cases been submitted to the Fund for prior approval. It is expected, however, that Brazil will undertake a drastic exchange reform in the near future.

Brazil has since 1949 made use of the Fund's resources a number of times, drawing both U.S. dollars and pounds sterling. By way of a generalization, it can be stated that Brazil has used the Fund resources as a revolving Fund to meet exchange crises. It is only recently--June 1958--that Fund resources have been used--in conjunction with Ex-Im Bank funds to support a stabilization effort. Total purchases of Brazil amount to the equivalent of $260.8 million, including $54.7 million purchased under the stand-by agreement concluded in June 1958.

1. The agreement of June 1958 provided for a stand-by credit to Brazil of $37.5 million for a period of one year, net of repayments of $37.5 million maturing in the same period. This stand-by was granted in consideration of a Brazilian stabilization program, the main elements of which are described in the following paragraph.

2. Brazil's commitments to the Fund under the stand-by arrangement referred to above were as follows:

(a) To hold cash expenditures of the Government during 1958 to Cr$135 billion and to limit the cash deficit to Cr$20 billion. Brazil also undertook to achieve fiscal balance in 1959.

(b) To limit the net expansion in central bank credit to the private nonbanking sector to 5 per cent of the end of 1957 level. Rediscounts and other credits to commercial banks would be maintained during 1958 at the same level as prevailed in the corresponding month of the previous year.

(c) To limit the net financial cost of the Government's coffee stockpiling program for the crop year 1958-59 to Cr$14 billion. The cost of this program was to be financed from foreign exchange profits to be realized from maintaining the effective exchange rate for coffee exports to Cr$54 per U.S. dollar and selling this exchange partly at a fixed rate (now Cr$80 per U.S. dollar) for certain imports and the remainder at rates resulting in the auction market, now around Cr$200 per U.S. dollar for so-called "general category" imports and around Cr$400 per U.S. dollar for so-called "special" (luxury) imports.

(d) To simplify somewhat its system of exchange rates for exports and also to reduce the subsidy for certain government and capital goods imports.

(e) To maintain outstanding medium-term suppliers' credits at a level not in excess of that outstanding as of the end of 1957.

3. The Brazilian financial program for 1958 has met with varying success. Commitments to the Fund with respect to the exchange system have been carried out. However, the budgetary cash deficit is already at a level of about Cr$25 billion compared with the Government's plan to limit the deficit to Cr$20 billion for the whole of 1958. The last two months of the calendar year are usually periods of heavy fiscal deficits. If the usual trend is repeated this year, the Government's cash deficit is likely to reach a level of Cr$30-35 billion. The credit targets of the central bank also appear to have been exceeded by substantial amounts. However, there has been an announcement that the Government will attempt to obtain some contraction in central bank credit in the last months of the calendar year.

4. Shortly after the above agreement with the Fund was concluded, there was a change in the financial administration of the Brazilian Government. The Fund agreement was negotiated with the Finance Minister, José Maria Alkmin. Mr. Adkmin resigned at the end of June 1958 and was succeeded by Mr. Lucas Lopez, the former head of the Economic Development Bank. The new Minister has mobilized a group of economic experts, headed by Mr. Roberto Campos, who are evolving a plan for economic stabilization. The task of achieving economic stability in 1959 is complicated by the renegotiation of minimum wage contracts in 1959. Under Brazilian legislation, the Government is obliged to review minimum wages in light of changes in the cost of living every three years. A 30 per cent increase in minimum wages in 1959 is under discussion. A 30 per cent increase in the salaries of government workers would make the problem of achieving budgetary equilibrium in 1959 very difficult.

Brazil's transactions with the Fund

(In millions of dollars)

Purchases		Repurchases		Fund holdings of Brazilian currency (in per cent of quota)
			Original	75
1949 April 5	15.00			85
Nov. 18	22.50			100
1951 Jan.(£ 10 million)	28.00			119
1952 Feb. 15	37.50			
		1952 June 2	15.00	134
		July 16	25.00	117
		Aug. 22	25.50	100
		1953 Feb. 17	18.75	87.5
1953 Mar. 9	18.75			100
		Aug. 14	18.75	87.5
Aug. 26	18.75			100
Dec. 31 (EB 53/78 £10 million)	28.00			119
1956 Dec. 31	---	1956 Dec. 31	28.00	100
1957 Oct.	37.50			125
1958 June 4	37.50	1958 July 9	17.25	150
July 8	17.25			150
Total	260.75		148.25	
		Net purchases	112.50	

Office Memorandum

TO : Mr. J. Del Canto DATE: October 24, 1958

FROM : B. Brovedani

SUBJECT : Fund Relations with Brazil

Brazil is an original member of the Fund with a quota of $150 million. In the past years, beginning in 1949, Brazil frequently used the Fund's resources. Total drawings amounted to $260.7 million, and repurchases to $148.2 million. The first drawing on the gold tranche of $37.5 million was made in 1949; other drawings were made in 1951, 1952 and 1953. By the end of 1956 the Fund's holdings of Brazilian currency was re-established to 75 per cent of quota. In 1957 Brazil drew its gold tranche, and in June 1958 the Fund and Brazil entered into a one year stand-by agreement for an amount of another $37.5 million. On the basis of this arrangement, the Fund's holdings of Brazilian currency may increase to 150 per cent of quota. Brazil drew $37.5 million on June 4, and $17.5 million on July 8; the last drawing was applied to a repurchase of a similar amount against the 1957 drawing. The stand-by agreement provides that when gross purchases under the stand-by total the equivalent of $54.75 million, as at present, Brazil will consult the Fund and agree with it the terms on which further purchases may be made under this stand-by agreement. In December 1958 Brazil has a repurchase obligation of $20 million.

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The Brazilian authorities also informed the Fund that the deficit in the balance of payments for 1958 should be estimated at about $330 million. Loans in the United States for $158 million were obtained in August to cover a substantial part of this deficit. Brazil is also committed to restrict total suppliers' credits from abroad to the level of December 1957.

Office Memorandum

TO : Mr. C. David Finch DATE: October 21, 1958

FROM : G. Escobar GE

SUBJECT : Brazil--Report for the Week Ended October 11, 1958

The average agio for U.S. dollars increased from Cr$178.8 per U.S. dollar in the week ended October 4, to Cr$188.4 per dollar in the week ended October 11. This rate was 8.8 per cent below the peak rate of Cr$206.6 per dollar reached during the week ended September 6, but 182 per cent above the average agio for December 1957. The free rate has fluctuated within a small range during September and the early part of October, but fell to Cr$144.9 per dollar on October 11, 6 per cent below the rate at the end of the previous week.

The currency issue has increased further, reaching a high of Cr$110.4 billion on October 11; this is 1.4 per cent above the total on September 27, and 14.3 per cent above the level of December 1957. On October 11 the currency issue was Cr$8.4 billion above the ceiling of Cr$102 billion proposed for December 1958 (See EBS/58/25, Supplement 3).

The Government's cash deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, rose to Cr$26.6 billion on October 11.1/ The present level of borrowing exceeds by Cr$6.6 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by Cr$5 billion, but in 1958 it has overstated the deficit by about Cr$2.4 billion on the average

Brazil--Exchange Market

(In cruzeiros per U. S. dollar)

		Agio for US$ 1/ (Monthly average)	Free Market Rate (end of period)
1957:	Dec.	66.8	90.5
1958:	Jan.	96.1	97.5
	Feb.	113.0	99.5
	Mar.	121.6	106.8
	Apr.	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	August	154.8	159.5
Week ended:			
	Sept. 6	206.6	156.3 2/
	13	194.4	151.5 2/
	20	195.0	156.3 2/
	27	190.6	151.5 2/
	Oct. 4	178.8	153.8 2/
	11	188.4	144.9 2/

1/ For Rio de Janeiro and Sao Paulo.
2/ New York Banks' selling prices for cable transfers on Friday of each week.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period	Currency Issue	Government Borrowing 1/
1957: December	96.6	36.0
1958: January	94.0	6.1
February	94.6	10.9
March	96.6	13.8
April	99.1	16.9
May	101.6	19.6
June	103.4	22.6
July	103.4	23.9
August	104.3	23.2
Week ended:		
Sept. 6	105.8	24.1
13	106.3	23.5
20	107.3	23.8
27	108.9 2/	22.7 2/
Oct. 4	110.1	25.4
11	110.4	26.6

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills.
2/ Revised

INTERNATIONAL MONETARY FUND

October 16, 1958

Mr. Cochran:

Attached is the weekly progress report on financial developments in Brazil. The carbon copy is for Mr. Hooker.

G. A. Costanzo

Mr. D. Finch October 16, 1958

G. Escobar

Brazil--Report for the Week Ended October 4, 1958

The average agio for U.S. dollars declined from Cr$ 190.6 per U.S. dollar in the week ended September 27 to Cr$ 178.8 per dollar in the week ended October 4. This rate was 13.4 per cent below the rate of Cr$ 206.6 per dollar reached during the week ended August 6. The free rate has fluctuated during September within a range of 3 per cent, and was Cr$ 153.8 on October 4.

The currency issue increased steadily in September, and reached a high of Cr$ 110.1 billion on October 4. This level was 5.6 per cent above the total at the end of August, and Cr$ 8.1 billion above the ceiling of Cr$ 102 billion proposed for December 1958 (see EBS/58/25, Supplement 3).

The Government's cash deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, rose to Cr$ 25.4 billion on October 4.1/ The present level of borrowing is Cr$ 5.4 billion above the Government's target to limit borrowing from all sources to Cr$ 20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by Cr$ 5 billion, but in 1958 it has overstated the deficit by about Cr$ 2.4 billion on the average.

Brazil--Exchange Market

(In cruzeiros per U. S. dollar)

		Agio for US$ 1/ (Monthly average)	Free Market Rate (end of period)
1957:	Dec.	66.8	90.5
1958:	Jan.	96.1	97.5
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May	101.6	19.6
June	103.4	22.6
July	103.4	23.9
August	104.3	23.2
Week ended:		
Sept 6	105.8	24.1
13	106.3	23.5
20	107.3	23.8
27	108.9 2/	22.7 2/
Oct 4	110.1	25.4

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills.

2/ Revised

re: Brazil

October 6, 1950.

To: Mr. Jorge Del Canto,
Mr. G. A. Costanzo,
Western Hemisphere Department,
International Monetary Fund.

From: Robert L. Sammons, Associate Adviser,
Division of International Finance.

Subject: Attachment

Our Far Eastern Section thought that the recent address by the Brazilian Minister of Finance was sufficiently applicable to conditions in Asia to justify summarizing it and distributing it to contacts in Washington and elsewhere interested in Asian problems.

It occurred to me that you might find the summary of sufficient convenience to be interested in having a copy. If you would like additional copies or would like to suggest other persons to whom they might be sent please let me know.

Attachment.

RLS:wjb

DIVISION OF INTERNATIONAL FINANCE
FAR EASTERN SECTION

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

FAR EASTERN ECONOMIC DEVELOPMENTS

58-4 September 25, 1958

The Brazilian Minister of Finance, Sr. Lucas Lopes, in a recent speech presented a penetrating analysis of some factors that vitally affect economic development that have been overlooked in Brazil. His remarks are highly applicable to the problems of many countries in Asia and should be of interest to all who follow Asian economic developments. For this reason we have excerpted the portions of the speech which have strong bearing upon Asian problems and reproduced them below.

Remarks of Sr. Lucas Lopes on Economic Development and Foreign Trade

Some simple truths which we forgot in the past and which are now threatening to disturb our progress may be made evident by a brief re-examination of the experience of our foreign trade during the last decade.

The neglect of export development

The first truth is that we neglected the expansion of the physical volume of our exports which always constitutes the true measure of the exporting effort of a country. It is sufficient to remember that, during the period 1948-1956, the volume of world exports increased by 77 per cent; the exports of Western Europe tripled; those of North America increased by 40 per cent; and of the Sterling Area by 53 per cent. Even in Latin America as a whole, the "quantum" of exports increased by 21 per cent, and some countries with rapid economic development, such as Mexico, were able practically to double their export volume. Well, in that period of intense expansion of world commerce, the physical volume of Brazilian exports declined by about 15 per cent. This is even more paradoxical when we realize that during the same period our demand for imports, deriving from the development process, was increasing vertically. Thus, while the index of the physical volume of exports was declining from 100 in 1948 to 85 in 1957, the quantum of imports was rising from 100 to 156.

The inadequacy of the compensating measures

The second truth is that during the decade, the financing of the deficits deriving from the disequilibrium between the declining volume of exports and the growing volume of imports of goods and services was effected by methods which are no longer available to us today and which, in themselves, do not contain elements of stability or durable solutions. In order to compensate for the insufficiency of our exporting effort, we resorted to the utilization of exchange reserves, to import restrictions, and to the importation of capital.

Unhappily, none of the various methods referred to above constitutes a practical solution in the present situation or is prudent as the base of a policy of economic development. We no longer have anything but exchange reserves of limited use. To be sure, there is the possibility of discouraging certain imports, but, in a general way, our schedule of imports consists almost exclusively of essential products.

The entry of foreign capital has occasionally helped us finance imports. However, the entry of such capital is erratic and uncertain. It should be encouraged, but it would be imprudent for us to rest our external solvency upon it. Moreover, we can no longer count upon a tendency for improvement for our terms of trade.

The last of the processes to which we resorted during the decade for meeting the deficits in our balances of payments was the negotiation of loans and purchases financed at short term abroad. While Brazil has a good credit standing, it is obvious that progressive increasing of indebtedness does not constitute a solution for balance-of-payments problems. One reason is that we cannot count indefinitely upon the cooperation of our foreign creditors if we do not make a serious effort to increase our capacity of exportation in order some day to meet our obligations. Even more important is the fact that we should reserve all of the credit standing which we possess abroad to help us finance new economic development projects at medium and long term instead of exhausting that credit standing simply to meet current imports.

The gravity of expanding exports

From all this it becomes clearly unavoidable and unpostponable that we devote our resources to a full and coordinated effort for encouraging exports. We need to adopt an attitude toward this problem as acute as did the British people when, in a dramatic moment in their history, they formulated the dilemma: "Export or die." Less pungent, but almost as serious is the problem in which we find ourselves: "Export or stagnate." For if we do not attribute a high priority to exportation, even sacrificing, if necessary, the internal consumption of exportable goods, we run the risk of paralyzing our promising movement of industrialization and of retarding the rhythm of our growth.

The fallacy of import substitution

The third truth is that the very process of economic development, during its initial phase of rapid structural transformations, acutely intensifies the demand for imports.

There are those who think that the problem of scarcity of foreign exchange may be resolved simply by creating industries to replace importation, so that the importance of giving incentives to exports takes second place. However, this idea is without doubt illusory. The object and the effect of substitutive industrialization is to provoke a salutary change in the composition of imports, but not actually to effect a reduction of their volume. A country may stop importing consumption goods and other finished products, but in so doing it increases its purchases of raw materials and

equipment abroad. By incorporating and by increasing the value of the national labor and, thereby, by improving the utilization of the country's resources, industrialization serves to increase the national income in relative terms and to broaden the internal consuming market. Thus, the internal market may consume a greater volume of goods and services than it would be possible to import from abroad. But, that same expansion of production and national consumption, which is translated into a higher per capita income and better standard of living for the population, creates new import needs. The structure of importation becomes radically altered; imports, contrary to what many people think, do not tend to diminish in volume, but, instead, become more rigid, that is more difficult to compress. It is relatively simple, for example, to impede the importation of automobiles, refrigerators, or radio equipment, even though with discomfort for the consumer. If, however, factories for producing these products exist within the country, to deny to those factories the importation of raw material and necessary equipment would not only be to punish the consumers but to diminish the productivity of the investment already made and to create a serious social problem of unemployment.

I do not wish that my words nor my intentions be misinterpreted. Substitutive industrialization is an essential component of the process of economic development. It must continue and be intensified, as is foreseen in the Program of Targets. But its meaning and objective is to make a given volume of foreign exchange compatible with a greater rhythm of economic development. The solution of our balance-of-payments problems and the obtaining of a foreign-exchange balance can only be reached by a consolidated effort of exporting more, without failing to do everything which can be done to replace goods, imported up to now, by internal production of an economic and rational type.

.....the very expansion of the process of replacing imports in many sectors depends upon our capacity of increasing exports with which to pay for the imported equipment and technique. It is true that equipment can be financed, in a good part, by the entry of foreign capital at long term, either by means of loans or by means of equity participation. But the very entry of capital is not independent of the future of our exports, because no one can indefinitely apply capital or effect loans for the benefit of countries whose exports are becoming insufficient to assure amortization of those loans or remuneration on the invested capital.

Multiple exchange rates no solution

The fourth truth is that the only means of reducing the cost of imports is to increase exports. The illusion is frequently held that the true cost of imports may be reduced by offering favored exchange rates to specified products or specific companies. Actually, however, this only serves to transfer the cost of subsidizing certain activities by means of taxes imposed upon others. The artifice of the employment of preferred exchange for imports does not generate foreign exchange; it only intensifies the demand for it with the inevitable result that the global cost of importation tends to increase, while it does not remove the basic cause of its increased cost, which is the insufficiency of exports.

Production for export increases efficiency

The fifth truth is that one of the most effective means of increasing the short-term productivity of the economy is by development of the export sector. This is because the country normally exports only that which it can produce with relative efficiency. Accordingly, to encourage our export capacity fully is to promote efficient use of the country's resources. It is obvious that this concept has its limitations, but those limitations have been over-estimated among us to the point that we have forgotten the fundamental truth. The first limit is that exportation can only proceed up to the limit of the absorptive capacity of external markets. The second is that in the dynamic process of growth, the efficiency of productive activity is altered in such manner that there is often acquired through industrialization a greater efficiency in the production of industrial goods than in the production of the traditional primary products.

Monetary stabilization a necessary prerequisite

[A] basic condition for the attaining of ... equilibrium is monetary stabilization. For this purpose, the Government is adopting the measures which are necessary to forestall the excessive expansion of credit and to reduce the deficits of the public budgets, endeavoring to reduce the rate of inflation which has contributed heavily in the recent decade to exchange disequilibria, providing incentives to the demands for foreign currencies and discouraging exports by the constant elevation of internal costs.

It is obvious that, preoccupied as we have been during the full post-war period with development of the internal market, we have not faced with sufficient realism the threat of foreign exchange asphyxiation, which threat has grown little by little. We have been giving too low a priority to exportation efforts, preferring to concentrate upon the internal market; we have subsidized determined imports of raw materials and equipment beyond what was necessary or prudent and we have abused the idea of selling small quantities at high prices.

That type of economic policy cannot be sustained.

(Headings and emphasis supplied in all cases.)

Office Memorandum

TO : Mr. B. Brovedani

DATE: October 3, 1958

FROM : G. Escobar

SUBJECT : Brazil--Progress Report, Week Ended September 27, 1958

The average agio for U.S. dollars declined from Cr$195.0 per U.S. dollar in the week ended September 20 to Cr$190.6 per dollar in the week ended September 27. This rate was 7.8 per cent below the peak rate of Cr$206.6 per dollar reached during the week ended August 6. The average agio for the month of September was Cr$196.7, 27.1 per cent above the average for the preceding month. The free rate has fluctuated in September within a range of about 3 per cent, and was Cr$151.5 per dollar at the end of the week.

The currency issue has increased steadily during September, reaching a high of Cr$109.2 on September 27. This level is 4.7 per cent above the total at the end of August, and Cr$7.2 billion above the ceiling of Cr$102 billion proposed for December 1958 (see EBS/58/25, Supp.3).

The Government's cash deficit, as measured by the Treasury's net position with the Bank of Brazil, plus the issue of Treasury bills was Cr$20.6 on September 27 1/. The present level of borrowing is only Cr$0.6 billion above the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by Cr$5 billion, but in 1958 it has overstated the deficit by about Cr$2.4 billion on the average

Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

		Agio for US$ 1/ (Monthly average)	Free Market Rate (end of period)
1957:	Dec.	66.8	90.5
1958:	Jan.	96.1	97.5
	Feb.	113.0	99.5
	Mar.	121.6	106.8
	Apr.	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	August	154.8	159.5
Week ended:			
	Sept. 6	206.6	156.3 2/
	13	194.4	151.5 2/
	20	195.0	156.3 2/
	27	190.6	151.5 2/

1/ For Rio de Janeiro and Sao Paulo
2/ New York Banks' selling prices for cable transfers on Friday of each week

Brazil--Currency Issue and Government Borrowing
(In billions of cruzeiros)

End of Period		Currency Issue	Government Borrowing 1/
1957:	Dec.	96.6	36.0
1958:	Jan.	94.0	6.1
	Feb.	94.6	10.9
	Mar.	96.6	13.8
	Apr.	99.1	16.9
	May	101.6	19.6
	June	103.4	22.6
	July	103.4	23.9
	August	104.3	23.2
Week ended:			
	Sept. 6	105.8	24.1
	13	106.3	23.5
	20	107.3	23.8
	27	109.2	20.6

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills

W/11

October 2, 1958

Dear Sir:

We wish to acknowledge receipt of your letters of September 3, 4, 10 and 17, 1958, DE/DIVIN/Cta.123/58, DE/DIVIN/Cta.124/58, DE/DIVIN/Cta.147/58 and DE/DIVIN/Cta.158/58, with data concerning the fiscal, credit and exchange position of Brazil, in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

P. J. Brand

Paul J. Brand
Acting Director
Western Hemisphere Department

Sr. Herculano Borges da Fonseca
Chefe do Departamento
Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

PJBrand/GEscobar:bjw

Office Memorandum

TO : Mr. B. Brovedani

DATE: September 26, 1958

FROM : G. Escobar

SUBJECT : Brazil--Progress Report, Week Ended September 20, 1958

The average agio for U.S. dollars was Cr$195.0 per U.S. dollar for the week ended September 20, compared with Cr$194.4 per dollar for the week ended September 13. This represented an increase of 26 per cent over the average for August. The free exchange rate was Cr$156.3 per dollar in the week ended September 20, i.e. 3.2 per cent more than at the end of August. However, the free rate has fluctuated widely recently, and at times has reached a high of Cr$170 per dollar during September. During the first three weeks of September the amounts of foreign exchange sold at auction in Rio de Janeiro and Sao Paulo were US$3.3 million and ACL$2.6 million, 20 per cent less than the weekly totals during previous months.

After showing no increase during the first four weeks of August, the currency issue rose slightly in the fifth week, totaling Cr$104.3 billion on August 30. This month the currency issue has continued to increase, and on September 20 it totaled Cr$107.3 billion. This level is Cr$5.3 billion above the ceiling of Cr$102 billion proposed for December 1958 (see EBS/58/25, Sup.3).

The Government cash deficit, as measured by the Treasury's net position with the Bank of Brazil, plus the issue of Treasury bills, was Cr$23.8 billion on September 20 1/. The present level of borrowing exceeds by Cr$3.8 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by Cr$5 billion, but in 1958 it has overstated the deficit by about Cr$3.4 billion on the average.

Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

	Agio for US$ 1/ (Monthly average)	Free Market Rate (end of period)
1957: Dec.	66.8	90.5
1958: Jan.	96.1	97.5
Feb.	113.0	99.5
Mar.	121.6	106.8
Apr.	142.2	120.8
May	134.4	122.0
June	134.3	132.8
July	140.8	134.0
August	154.8	151.5
Week ended:		
August 9	147.5	133.3 2/
30	169.1	151.5 2/
Sept. 13	194.4	151.5 2/
20	195.0	156.3 2/

1/ For Rio de Janeiro and Sao Paulo
2/ New York Banks' selling prices for cable transfers on Friday of each week

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period	Currency Issue	Government Borrowing 1/
1957: Dec.	96.6	36.0
1958: Jan.	94.0	6.1
Feb.	94.6	10.9
Mar.	96.6	13.8
Apr.	99.1	16.9
May	101.6	19.6
June	103.4	22.6
July	103.4	23.9
Week ended:		
Aug. 9	103.6	22.8
30	104.3	23.2
Sept.13	106.3	23.5
20	107.3	23.8

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills

126225

Anexo

Superintendência da Moeda e do Crédito

Rio de Janeiro, 24 de setembro de 1958.

DE/DIVIN/Cta.164/58

Mr. Jorge Del Canto
Director of Western Hemisphere Department
International Monetary Fund
Washington D.C.
U.S.A.

INTERNATIONAL MONETARY FUND
OCT 6 4 44 PM 1958
RECEIVED CORRESPONDENCE SECTION

Prezado Senhor,

De acôrdo com os entendimentos mantidos entre o Govêrno brasileiro e o Fundo Monetário Internacional, e em atenção ao solicitado em sua carta de 10 do corrente, temos o prazer de confirmar o telegrama que lhe enviamos contendo as informações constantes do quadro anexo referentes à evolução do movimento cambial, fiscal e de crédito do Brasil, verificado na última semana.

Atenciosas saudações

DEPARTAMENTO ECONÔMICO
Divisão de Assuntos Internacionais

Herculano Borges da Fonseca
Chefe do Departamento

Christiano N.Sampaio Vianna
Chefe da Divisão interino

Anexo.

INTERNATIONAL MONETARY FUND

September 23, 1958

Mr. Cochran:

The attached memorandum on Brazil is forwarded for your information.

You may wish to send the carbon copy to Mr. Hooker.

G. A. Costanzo

Mr. B. Brovedani September 23,1958

G. Escobar

Brasil--Progress Report, Week Ended September 13, 1958

The average agio for U.S. dollars was Cr$ 194.4 per U.S. dollar for the week ended September 13, compared with Cr$ 169.1 per dollar for the week ended August 30. This represented an increase of 38.1 per cent over the average for July. The free exchange rate was unchanged at Cr$ 151.5 per dollar in the week ended September 13, i.e., 11.6 per cent more than the average for July. During the first two weeks of September the amounts sold at auction were US$3.3 million and ACL$2.6 million, 20 per cent less than the weekly totals during previous months.

After showing no increase during the first four weeks of August, the currency issue rose slightly in the fifth week, totaling CR$ 104.3 billion on August 30. On September 13 the currency issue totaled Cr$ 106.3 billion. This level is Cr$ 4.3 billion above the ceiling of Cr$ 102 billion proposed for December 1958 (see EBS/58/25, Sup. 3).

The Government cash deficit, as measured by the Treasury's net position with the Bank of Brasil plus the issue of Treasury bills, was Cr$ 23.5 billion on September 13.1/ The present level of borrowing exceeds by Cr$ 3.5 billion the Government's target to limit borrowing from all sources to Cr$ 20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by Cr$ 5 billion, but in 1958 it has overstated the deficit by about Cr$ 3.4 billion on the average.

Brazil—Exchange Market

(In cruzeiros per U.S. dollar)

		Agio for US$ 1/ (Monthly average)	Free Market Rate (end of period)
1957:	Dec.	66.8	90.5
1958:	Jan.	96.1	97.5
	Feb.	113.0	99.5
	Mar.	121.6	106.8
	Apr.	142.2	120.8
	May	134.4	122.0
	June	134.3	132.8
	July	140.8	134.0
	Week ended:		
	August 9.	147.5	133.3 2/
	30	169.1	151.5 2/
	Sept. 13	194.4	151.5 2/

1/ For Rio de Janeiro and Sao Paulo
2/ New York Banks' selling prices for cable transfers on Friday of each week

Brazil—Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period		Currency Issue	Government Borrowing 1/
1957:	Dec.	96.6	36.0
1958:	Jan.	94.0	6.1
	Feb.	94.6	10.9
	Mar.	96.6	13.8
	Apr.	99.1	16.9
	May	101.6	19.6
	June	103.4	22.6
	July	103.4	23.9
	Week ended:		
	Aug. 9	103.6	22.8
	30	104.3	23.2
	Sept.13	106.3	23.5

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills

Office Memorandum

TO : Mr. G. A. Costanzo

DATE: September 19, 1958

FROM : G. Escobar

SUBJECT : Brazil--Economic Developments and Stabilization Program in the First Half of 1958

In the first half of 1958 economic developments in Brazil were characterized by a worsening of the deficit in the balance of payments, and continued internal inflation caused by an increase in the fiscal deficit and further credit expansion. Dollar exchange transactions for the first semester of 1958 show a deficit in merchandise account of $17 million, compared to a deficit of $4 million in the same period in 1957, and a surplus of $230 million in the first seven months of 1956. The cost of living advanced nearly 10 per cent since the beginning of the year. In conjunction with this increase, the money supply rose by 11 per cent in the first half of 1958, compared with an increase of 8 per cent in the like period of 1957, and the cash deficit of the Federal Government totaled Cr$20.7 billion at the end of July 1958, 50 per cent higher than at the end of July last year.

1. External payments position

During 1958, the payments position of Brazil deteriorated further, chiefly owing to the decline in price and in the volume of coffee exports. Measured in terms of exchange transactions in convertible currencies, the deficit on merchandise account in the first seven months of 1958, was $17 million, compared to a deficit of only $4 million in the first seven months of 1957, and a surplus of $230 million during the same period in 1956. As shown in the table below, exchange receipts from coffee were $64.6 million (or 22.8 per cent) lower during January/July 1958, than in the like period in 1957. The deficit on goods, services, and long-term capital was $145.4 million during the period from January to July of this year. This deficit was financed by net drawings on lines of credit of $81 million, by an IMF drawing of $37.5 million, and by a reduction in foreign exchange assets of convertible currencies of $19 million, the remaining amount of $30.3 million being unexplained.

Table 1. Exchange Transactions during January/July 1957-58

(In millions of U.S. dollars)

	1957	1958
A. Exports	£357.9	£322.9
Coffee	£283.1	£218.5
Other	£74.8	£104.4
B. Imports	-361.8	-339.78
C. Services	-78.0	-47.0
D. Capital	-59.5	-81.6
E. Total (A, B, C, D)	-141.4	-145.4

	1957	1958
F. Other transactions	⁄22.8	-22.4
G. Short-term capital	⁄118.7	⁄167.8
Net drawings on lines of credit	⁄16.8	⁄81.0
IMF	—	⁄37.5
Dollar assets (decrease ⁄)	⁄96.4	⁄19.0
Unexplained difference	⁄5.5	⁄30.3

Sign (⁄) indicates inflows; (-) outflows.

Merchandise imports and exports are known only for the first four months of this year. These are shown in the table below, with comparisons with the corresponding period last year, and with the totals for 1956 and 1957. The most striking fact in this table is the fall in the exports of coffee from an annual rate of $876 million in the first four months of 1957, to an annual rate of $642 million in the same period in 1958.

Table 2. Brazil--Merchandise trade

(In millions of U.S. dollars)

	1956	1957	January/April 1957 1/	January/April 1958 1/
Exports	1.482	1.392	1293	1110
Coffee	1.030	846	876	642
Imports, c.i.f.	1.234	1.489	1332	978

1/ Four month totals at annual rates.

The volume of coffee exports declined from an average of 93 (1953 = 100) during the first four months of 1957, to an average of 70 in the similar period this year.

The price of coffee averaged 54¢ per pound 1/ during the first four months of this year, compared to 60¢ per pound in the first four months of 1957. In recent months the price of coffee has continued to fall, and according to press reports, was 44¢ per pound on September 17, 1958.

The reduction in exchange earnings and the continued strong demand for foreign exchange, has caused the cruzeiro to depreciate further in the foreign exchange markets. At the end of August the average agio for general category imports 2/ was Cr$165.4 per U.S. dollar, compared to Cr$79.6 per dollar at the beginning of January 1958; this represented a decline of 108 per cent. During the same period the free rate ~~depreciated~~ increased from Cr$90.5 to Cr$151.5 per U.S. dollar, or 67 per cent.

2. Money and prices

The money supply rose to Cr$322.7 billion at the end of June, 10.9 per cent above the level of December 1957, in contrast to an increase of 8.3 per cent during the first semester of last year. The growth in the money supply reflected an increase of 5.9 per cent in the volume of currency outside the banks, and a rise of 12.8 per cent in bank credit.

The currency in circulation rose by Cr$6.8 billion during the first semester of 1958, compared to an increase of Cr$2.5 billion during the same period last year. As shown in the table below, the increase in the currency in circulation during 1958 is mainly attributable to the rise in the loans of the monetary authorities to the Treasury, to the IBC for coffee financing, and in loans extended to the private sector. The currency expansion was mitigated, however, by the large flow of exchange profits.

The issue of currency 3/ rose from Cr$96.6 billion at the end of 1957 to Cr$103.4 billion at the end of June, and on August 30 it totaled Cr$104.3 billion. On this date the currency issued exceeded the ceiling agreed in EBS/58/25 Supp.3 by Cr$2.3 billion.

1/ Spot price in New York for Santos 4.

2/ For Rio de Janeiro and Sao Paulo only.

3/ The currency issue differs from the volume of currency in circulation by the amount of cash held by the monetary authorities.

Table 3. Factors Affecting the Volume of Currency in Circulation 1/

(In billions of cruzeiros)

	Change in First half of 1957 2/	Change in First half of 1958 2/	Total, end of June 1958 3/
Treasury	⁄10.7	⁄4.7	109.8
States and municipalities	-0.9	-0.2	13.5
Official entities	-1.0	-1.2	-13.3
Coffee financing 4/	⁄1.1	⁄11.0	-32.9
Foreign sector	-13.5	-16.2	74.5
Private sector	⁄5.3	⁄5.5	76.8
Commercial banks	-0.3	⁄8.0	17.6
Unclassified	⁄1.4	-4.9	-146.3
Currency in circulation	⁄2.7	⁄6.4	99.6
Currency held by monetary authorities (increase +)	-0.2	⁄0.4	3.7
Currency issue	⁄2.5	⁄6.8	103.4

1/ Analysis of assets and liabilities of the monetary authorities.

2/ Increase in assets (⁄), decrease in liabilities (⁄), increase in liabilities (-), decrease in assets (-); except for currency in circulation, where opposite signs are used.

3/ Excess of liabilities over assets (-).

4/ Mostly payments from agio accounts to IBC for coffee program.

The present position with respect to the other monetary ceilings is as follows: the Bank of Brazil credit to private nonbanks was agreed not to exceed Cr$96.4 billion at the end of December 1958. These credits were Cr$91.8 billion at the end of 1957, and have risen to Cr$101.5 billion at the end of July 1958, which is Cr$5.1 billion above the ceiling.

The Bank of Brazil credit to states and municipalities was limited to the level of December 31, 1957 which was Cr$14.3 billion. These credits have been falling gradually throughout 1958, and on July 31 totaled Cr$13.8 billion, Cr$0.5 billion below the ceiling.

Bank of Brazil rediscounts and other credits to commercial banks were not to exceed during 1958 the level of the corresponding month in 1957. These credits have been increasing steadily during 1958. At the end of June they totaled Cr$13.6 billion, and at the end of July they were Cr$14.9 billion, which is Cr$1.8 billion above the ceiling established for that month.

The consumer price index for the Federal District rose from 378 (1948 = 100) in December 1957, to 414 in July 1958, or 9.6 per cent. This contrasts with the increase of 6.2 per cent, which took place in the first seven months of last year.

Wholesale prices have advanced 8.3 per cent through July this year, nearly four times more than during the first seven months of 1957.

3. Fiscal position

In 1957 the Federal Government's cash expenditures were Cr$126.6 billion; receipts totaled Cr$85.5 billion. In 1958 total cash expenditures are expected to be Cr$135 billion and revenues Cr$115 billion. That is, the deficit is to be limited to Cr$20 billion for the year, in contrast to a deficit of Cr$41.1 billion in 1957. In the event that revenues fall short of this estimate, the Government proposes to make further reductions in expenditures so as to limit the deficit to Cr$20 billion. Accordingly, borrowing from all sources is expected to be Cr$20 billion. So far in 1958 budget performance has exceeded these limits. By the end of July 1958 the deficit was Cr$20.7 billion, compared to a cash deficit of Cr$13.8 billion during the same period in 1957. This represents an increase in the deficit of 50 per cent above that of the corresponding period last year. During 1958 the deficit has been financed by borrowing Cr$9.5 billion from the Bank of Brazil and by issuing Treasury bills, the balance of which totaled Cr$11.3 billion at the end of July 1958.

Mr. B. Brovedani

September 16, 1958

G. Escobar

Progress Report, Week Ended August 30, 1958

The average agio for U.S. dollars for general category imports was Cr$165.4 per U.S. dollar for the week ended August 30, compared with Cr$152.0 per U.S. dollar in the preceding week. This represented an increase of 20.2 per cent over the average for July. The free exchange rate depreciated further to Cr$151.5 per U.S. dollar in the week ended August 30. According to press reports, the latest free rate quotation was Cr$169.5 per U.S. dollar on September 15.

After showing no increase during the first four weeks of August, the currency issue rose slightly in the fifth week, totaling Cr$104.3 billion on August 30. This level is Cr$2.3 billion above the ceiling of Cr$102 billion proposed for December 1958. (See EBS/58/25, Supp. 3).

The Government deficit, as measured by the Treasury's position with the Bank of Brazil and the issue of Treasury bills, rose to a peak of Cr$26.2 billion on August 16, and declined to Cr$23.2 billion on August 30 1/. This decline reflects entirely a reduction in the Treasury's indebtedness to the Bank of Brazil. The present level of borrowing exceeds by Cr$3.2 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

1/ In 1957 Government borrowing understated the cash deficit by Cr$5 billion, but in 1958 it has overstated the deficit by an average of Cr$3.4 billion each month.

Brazil—Exchange Market

(In cruzeiros per U.S. dollar)

		Agio for US$ 1/ (monthly average)	Free Market Rate (end of period)
1957:	Dec.	66.8	90.5
1958:	Jan.	92.3	97.5
	Feb.	109.5	99.5
	Mar.	118.0	106.8
	Apr.	139.2	120.8
	May	131.2	122.0
	June	131.3	132.8
	July	137.6	134.0
	Week ended:		
	Aug. 9	144.0	133.3 2/
	16	143.1	135.1 2/
	23	152.0	137.0 2/
	30	165.4	151.5 2/

1/ For general category imports
2/ New York Banks' selling prices for cable transfers on Friday of each week

Brazil—Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period		Currency Issue	Government Borrowing 1/
1957:	Dec.	96.6	36.0
1958:	Jan.	94.0	6.1
	Feb.	94.6	10.9
	Mar.	96.6	13.8
	Apr.	99.1	16.9
	May	101.6	19.6
	June	103.4	22.6
	July	103.4	23.9
	Week ended:		
	Aug. 2	103.6	23.8
	9	103.6	22.8
	16	103.6	26.2
	23	103.6	25.2
	30	104.3	23.2

1/ Treasury position with the Bank of Brazil plus issue of Treasury bills

WA6/15 SEP VIA ALL AMERICA

30453

AW91/RIX36

RIO 56 BRASGOVT 15 236P

INTERFUND H MERLE COCHRAN

WASHINGTONDC

REFERENCIA SUA CARTA 27 AGOSTO TENHO PRAZER INFORMAR PRIMEIRA REMESSA OFICIO 8 AGOSTO ABRANGENDO DADOS PRIMEIRO SEMESTRE 1958 PT DADOS SEMANAIS ENVIADOS INTERMEDIO JORGE DEL CANTO DIAS 14 VG 21 VG 27 AGOSTO E 4 CORRENTE PT ADOTADAS PROVIDENCIAS SENTIDO MANTER REGULARIDADE REMESSAS

SAUDACOES GARRIDO TORRES DIRETOR EXECUTIVO

SUPERINTENDENCIA MOEDA CREDITO

Received in Cable Room 2:35 PM September 15, 1958

INTERNATIONAL MONETARY FUND

September 12, 1958

Mr. Cochran:

Attached is a statement of certain key figures indicative of financial trends in Brazil. It should be noted that the exchange rates are prior to the increase which recently occurred with the reduction of 20 per cent in the amount of exchange offered in the exchange market. The free market rate is at present about Cr$170 per U.S. dollar.

It is suggested that a copy be forwarded to Mr. Southard.

G. A. Costanzo

Mr. C. David Finch

September 11, 1958

G. Escobar

Brazil--Progress Report, Week Ended August 23, 1958

The average agio for U.S. dollars was Cr$152.0 per U.S. dollar for the week ended August 23, compared with Cr$143 per U.S. dollar in the preceding week. This represented a rise of 10.5 per cent above the July average, in contrast to a decline of 0.9 per cent in the period from April to June. The free exchange rate has depreciated continually in 1958, falling from Cr$90.5 per U.S. dollar at the end of December 1957, to Cr$134 per U.S. dollar on August 23. According to press accounts, on September 8 the rate was Cr$154 per U.S. dollar.

The currency issue rose steadily during the period January to June at an average monthly rate of 2 per cent, but leveled off in July and August. On August 23 total currency issued was Cr$103.6 billion, Cr$1.6 billion above the ceiling of Cr$103 billion proposed for December 1958. (BBS/58/25, Supp. 3)

Treasury borrowing rose to a peak of Cr$26.2 billion on August 16, and declined slightly to Cr$25.2 billion on August 23. This small decline reflects entirely a reduction in the Treasury's indebtedness to the Bank of Brazil. The present level of borrowing exceeds by Cr$5.2 billion the Government's target to limit borrowing from all sources to Cr$20 billion in 1958.

Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

End of period	Average Agio for US$ 1/	Free Market Rate
1957: Dec.	66.8	90.5
1958: Jan.	92.3	97.5
Feb.	109.5	99.5
Mar.	118.0	106.8
Apr.	139.2	120.8
May	131.2	122.0
June	131.3	132.8
July	137.6	134.0
Week ended:		
Aug. 9	144.0	133.3
16	143.1	135.1
23	152.0	137.0

1/ For general category imports.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of period	Currency Issue	Government Borrowing 1/
1957: Dec.	96.6	36.0
1958: Jan.	94.0	6.1
Feb.	94.6	10.9
Mar.	96.6	13.8
Apr.	99.1	16.9
May	101.6	19.6
June	103.4	22.6
July	103.4	23.9
Week ended:		
Aug. 2	103.6	23.8
9	103.6	22.8
16	103.6	26.2
23	103.6	25.2

1/ Borrowing from Bank of Brazil plus issue of Treasury bills.

Mr. Cochran

Original

Superintendência da Moeda e do Crédito

Rio de Janeiro, 10 de setembro de 1958

DE/DIVIN/Cta. 146/58

Ilmo. Sr.
H. Merle Cochran
DD. Diretor do
Fundo Monetário Internacional
Washington 25, D.C.
U.S.A.

Prezado Senhor Diretor,

Recebi sua carta de 27 de agôsto pp., e muito sensibilizado agradeço os amáveis votos que V.Sa. me formula para o melhor êxito nas funções de Diretor da Superintendência da Moeda e do Crédito, de que fui investido pelo Govêrno Brasileiro.

Relativamente às informações solicitadas por intermédio do Ministério da Fazenda, tenho o prazer de informar que esta Superintendência, tomando na devida consideração o assunto, elaborou uma série completa, abrangendo todo o primeiro semestre do corrente ano, a qual foi remetida, por via aérea, anexa ao ofício número 63/58, de 8 de agôsto pp.

Outrossim, foram adotadas as providências necessárias para o envio semanal e mensal das informações, por via aérea, o que vem sendo feito nos prazos estabelecidos. A propósito, confirmo as cartas dirigidas a V.Sa., em 14.8, e ao Sr. Jorge Del Canto, em 21 e 27.8.58.

Assim, espero que V.Sa. esteja recebendo normalmente as citadas informações e, caso contrário, peço avi-

S. M. C. 7

sar-me para as providências necessárias.

Consulto, outrossim, V.Sa. se o envio dos dados semanais por via aérea atende ao desejado, ou se é imprescindível efetuar-se a remessa por via telegráfica.

Aproveito o ensejo para reiterar a V.Sa. os protestos de elevada estima e distinta consideração.

Jose Garrido Torres
Diretor Executivo

S. M. C. 7

September 10, 1958

Dear Herculano:

In the case of countries with which the Fund has outstanding stand-by arrangements, it is necessary for the Fund to keep abreast of financial developments in such countries with a minimum of time lag. We appreciate the efforts of your Department in providing the information we have requested. In view of the necessity, however, of keeping more current with developments in Brazil, we would ask that certain changes be made in the procedure of transmitting this information to us.

With respect to the information indicated in points number 1 through 6 on the first page of our letter to the Minister of Finance, dated June 6, 1958, we would appreciate this information being sent to us by cable. The cable could be very short, giving for each number from 1 to 6 the appropriate figure in billions of cruzeiros. It would be understood that the data applies to the end of the previous week. In the case of items 6 (a), 6 (b), and 6 (c) on Brazil's exchange holdings, we have in mind the preliminary data compiled by the Carteira de Cambio based on export shipments. In brief, the weekly cable we are requesting would contain only 9 figures numbered as follows: 1, 2, 3, 4(a), 4(b), 5 (agio for Rio market), 6(a), 6(b), and 6(c).

As for the remaining information outlined in our letter of June 6, we would ask that this information be transmitted by air mail. Ordinary mail occasions a delay of a month or more. We would also ask that this information not be held until each part has been assembled, but that each individual table be sent separately as it becomes available.

With warmest regards, I am

Sincerely yours,

Jorge Del Canto

Mr. Herculano Borges da Fonseca
Chefe do Departamento
Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

JDelCanto:arb

Office Memorandum

TO : Mr. Bruno Brovedani

DATE: September 8, 1958

FROM : G. Escobar

SUBJECT : Brazil--Current Fiscal and Monetary Position With Respect to Proposed Ceilings

The ceilings proposed by Brazil in EBS/58/25, Supplement 3 are shown below in the left-hand column; the current position with respect to these ceilings is shown at the right.

A. Monetary Ceilings	Current Position
1. Bank of Brazil credit to the private nonbanking sector is subject to a graduated ceiling so that by the end of 1958 these credits will be only 5 per cent above the end of 1957 level.	1. At the end of 1957, Bank of Brazil credit to the private nonbanking sector was Cr$91.8 billion. The ceiling for December 1958 is Cr$96.4 billion. On June 30, 1958 the total was Cr$101.4 billion, Cr$5 billion above the December ceiling.
2. Bank of Brazil credit to states and municipalities will be limited to the level outstanding at the end of 1957.	2. At the end of 1957, credit to states and municipalities was Cr$14.3 billion. At the end of June 1958 it stood at Cr$14.0 billion, Cr$0.3 billion below the ceiling.
3. The level of Bank of Brazil rediscounts and other credits to commercial banks shall not exceed as of the end of each month in 1958 the level outstanding as of the end of the corresponding month of 1957.	3. No recent data is available on rediscounts and other credits to commercial banks. At the end of May these credits were Cr$13.4 billion, Cr$0.9 billion above the corresponding total for May 1957.
4. The currency issue was not to exceed Cr$102 billion at any time in the second half of 1958.	4. On June 28 the currency issue was Cr$103.1 billion, and on July 26 it was Cr$103.5 billion, Cr$1.5 billion above the ceiling. On August 23 the currency issue was Cr$103.6 billion.

B.	Fiscal Ceilings	Current Fiscal Position
1.	The government cash deficit should not exceed Cr$20 billion in 1958.	1. On June 30, 1958 the cash deficit was Cr$20.5 billion. This represents an annual rate of Cr$41.0
1a	Expenditures were expected not to exceed Cr$135 billion in 1958.	1a Expenditures totaled Cr$63.1 billion by June 30, or an annual rate of Cr$126.2 billion.
1c	Revenues were expected to total Cr$115 billion in 1958.	1c Revenues have totaled Cr$42.6 billion by June 30; this is an annual rate of Cr$85.2 billion.

INTERNATIONAL MONETARY FUND

September 5, 1958

TO : Mr. H. Merle Cochran

FROM: J. Del Canto

SUBJECT: Brazil

Attached are notes of interest on Brazil. I am asking Mr. Costanzo to look into the position of the ceilings for Brazil that unfortunately have been broken (we hope temporarily).

Mr. Del Canto August 29, 1958

B. Brovedani

Stand-by with Brasil

An examination of the letter from SUMOC of August 21, 1958 and of its attachment, brings out the following points which may require some action.

1) The flow of information from Brasil has apparently started with this letter of August 21, which was received one day after mailing Mr. Cochran's letter to the Executive Director of SUMOC requesting that this flow be initiated.

2) According to our letter of June 6 some of the statistical information was to be remitted by cable. The information attached to the letter of August 21 is a reply to five of the six questions we wanted by cable. The unanswered question concerns the foreign exchange position of the monetary authorities.

3) A cursory examination of the data reveals that on August 16 the currency issue of the Central Bank was at Cr$ 103.7 billion. The ceiling on the currency issue was established at Cr$ 102 billion (5 per cent increase over December 1957). The stand-by agreement specifies that "should the currency issue exceed this limit at any time during the second half of 1958 the necessity of taking supplementary measures to the above will be considered." Furthermore, there are indications that the 1958 budgetary deficit estimate of Cr$ 20 billion is being exceeded. The sum of new advances by the Central Bank to the Treasury and of the security flotation up to August 16, was Cr$ 26.2 billion.

Mr. J. Del Canto September 3, 1958

B. Brovedani

Brazil--Recent Developments

Today's press reports that information from Brazil of the resignation of Mr. Guzzo as President of the Coffee Institute, was interpreted generally in the commodity market as pointing to a weakening of the coffee price support program. Mr. Guzzo was also head of the International Coffee Organization.

Mr. Guzzo, according to the Journal of Commerce, was in Washington last week, attending a meeting of the International Coffee Organization; he was called home suddenly. This crisis started last week when the governing board of the Coffee Institute addressed a letter to the Minister of Finance, threatening to resign if the Government failed to change its coffee policies. The most important problem appears to be the price paid for purchases by the Government of the excess coffee production, i.e. 40 per cent of the 1958-59 crop. This price was established considerably below market prices, and below the price paid last year.

The New York Times states that this crisis "coming one month before important congressional and gubernatorial elections, is serious in terms of Brazilian economy, as well as politics".

The President of Brazil conferred at length with the Governors of the coffee producing states, to find an early solution to this crisis.

Yesterday there was a decline in the New York commodity market of 2¢ (the daily limit) in the future quotations for Brazilian coffees; the mild coffee dropped 1.25¢.

Today's press also indicates that, starting this month, exchange offerings through the auction market are reduced by 20 per cent. This is in full accordance with what was indicated to the Fund by the Brazilians during the recent negotiations. The free market rate in Rio depreciated yesterday to a low of Cr$1,70 per dollar.

BBrovedani:bjw

September 4, 1958

Dear Herculano:

I wish to acknowledge receipt of your letter dated August 27, reference DE/DIVIN/Cta.116/58, and to thank you for the prompt remittance of the information we had requested. This information will be very helpful to us here in the Fund.

With best regards, I remain

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe do Departamento Econômico
Superintendencia da Moeda e do Crédito
Av. Rio Branco 120 - 9º andar
Rio de Janeiro, Brasil

JDelCanto:eb

124869

Superintendência da Moeda e do Crédito

Rio de Janeiro, 27 de agôsto de 1958.

DE/DIVIN/Cta.116/58

Mr. Jorge Del Canto
Director of Western Hemisphere Department
International Monetary Fund
Washington D.C.
U.S.A.

Prezado Senhor,

De acôrdo com os entendimentos mantidos entre o Govêrno brasileiro e o Fundo Monetário Internacional, temos o prazer de enviar a V.Sa., em anexo, quadros referentes à evolução do movimento cambial, fiscal e de crédito do Brasil, verificado na última semana.

Atenciosas Saudações.

DEPARTAMENTO ECONÔMICO
Divisão de Assuntos Internacionais

Herculano Borges da Fonseca — Chefe do Departamento
Christiano N. Sampaio Vianna — Chefe da Divisão, intº.

Anexo.

Mod. S. M. C. 7

SEP 3 1958

Dear Mr. Garrido Torres:

Reference is made to my letter of August 27th inquiring about the remittance of economic information. I received today your letters of August 8 and August 14 accompanying monetary, fiscal and exchange data, which are now being studied by the staff. I thank you very much for your cooperation in this matter, and I assure you that the staff will be in further touch with you on these problems.

With best regards, I remain

Sincerely yours,

H. Merle Cochran
Acting Managing Director

Mr. José Garrido Torres
Executive Director
Superintendencia da Moeda e do Crédito
Av. Rio Branco 120 - 9º andar
Rio de Janeiro, Brazil

JDelCanto/BBrovedani:arb
9/3/58

CENTRAL FILES

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
ERD
LEG
RES
SEC
UN Rep.
Mr. Hexner
Mr. Hebbard

AUG 29 1958

Mr. Anderson
Mr. Gerstein
Miss Hodel

Dear Sir:

On the occasion of the consultation which the CONTRACTING PARTIES conducted with Brazil last year, the representative of the Fund indicated that the results of the Fund's forthcoming consultation with Brazil would be transmitted to the CONTRACTING PARTIES. I have the honor to advise you that the Government of Brazil has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of the transitional arrangements of Brazil. For the information and use of the CONTRACTING PARTIES, the results of this consultation, which was concluded on June 2, 1958, were as follows:

1. The Government of Brazil has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. Inflation has been the root cause of Brazil's current economic difficulties. Although there has been some diminution in the rate of increase in prices in 1957 and early 1958, the rate is still substantial and the monetary and credit expansion continues unabated. In 1956, 1957, and the early months of 1958 the large cash deficits of the Federal Government and their inflationary financing were an aggravating factor in the monetary expansion. For 1958 as a whole, the Government plans to limit the budgetary cash deficit to Cr$20 billion and to offset the inflationary impact of this financing by sterilizing the accruing exchange profits. The Government is also planning steps to restrict private credit expansion as part of its new program. For 1959 the Government intends to balance its budget.

3. While Brazil's foreign exchange situation improved considerably in 1956 as a whole, a decline in exchange reserves began in the latter months of the year. This deterioration continued through 1957 and into early 1958 and resulted in a considerable decline in Brazil's foreign exchange reserves. In addition to the basic disequilibrium, a particular factor in the decline in reserves was the policy of auctioning amounts of dollar and ACL exchange in excess of availabilities. The Fund considers that Brazil will have to manage its anti-inflationary program in such a way as to strengthen the balance of payments, especially in view of the additional heavy payment commitments facing Brazil in the next few years.

4. Since the last consultations there has been a simplification in Brazil's multiple exchange system affecting import payments, resulting from the changes introduced in August 1957

RAA

in connection with the tariff reform. The recent proposals for changes in Brazil's rates for preferential imports and other payments will result in an effective devaluation of these rates. On the export side, the proposed changes also represent a simplification of the rates and some devaluation. The Fund does not object to Brazil's multiple currency practices, including the changes specified in Brazil's letter of 26th May 1958, on a temporary basis, but urges Brazil, as a first step in implementing its declared intention to introduce with as little delay as possible further exchange measures with a view to attaining a unitary rate, to take early action to unify the various rates for imports and to reduce the multiplicity of rates on the export side at levels which take account of the long-run prospects for the balance of payments. The Fund will remain in consultation with Brazil with respect to these matters.

5. The Fund notes that Brazil has reduced reliance on bilateral agreements and urges Brazil to continue its efforts in this direction.

6. In concluding the 1957 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Brazil.

In accordance with the arrangements for the transmission of such material, we shall be sending papers related to the Fund's consultation with Brazil for the use of the GATT secretariat.

Very truly yours,

H. Merle Cochran
Acting Managing Director

Mr. Eric Wyndham White
Executive Secretary
CONTRACTING PARTIES to the General
Agreement on Tariffs and Trade
Villa la Bocage
Palais des Nations
Geneva 10, Switzerland

INTERNATIONAL MONETARY FUND

August 27, 1958

Mr. Cochran:

We are somewhat disturbed by the slowness of Brazil in transmitting data to set up our follow up procedures under the stand-by with Brazil. The attached letter is designed to expedite this matter.

J. Del Canto

Attachment

Jorge Del Canto

AUG 27 1958

Dear Mr. Executive Director:

We have been recently informed of your appointment as Executive Director of the Superintendency of Money and Credit, and we would like to express our best wishes for success in your new important position. As you know, the Fund has developed close working relations with the Superintendency and we look forward to an even closer association in the future.

On June 6, 1958 we addressed the attached letter to the Minister of Finance, requesting information essential to the staff in following up economic developments in Brazil, as required by the stand-by arrangement agreed with the Fund on June 2, 1958. We were hoping that the regular flow of this information would soon be initiated.

During the recent discussions held in Washington, which led to a modification of the letter attached to the stand-by arrangement, the staff had occasion to review, with Mr. Casimiro Ribeiro of the Brazilian delegation, the list of information contained in the attached letter of June 6. The exact nature of the information required, and the desired timing of the remittance, was explained to him.

Since there has been some delay in receiving this information, we would appreciate it very much if you could kindly look into this matter, so that the flow of information may be promptly initiated.

With warmest regards, I remain

Sincerely yours,

H. Merle Cochran
Acting Managing Director

Attachment

Mr. José Garrido Torres
Executive Director
Superintendencia da Moeda e do Credito
Av. Rio Branco 120 - 9º andar
Rio de Janeiro, Brazil

cc: Mr. Cochran

JDelCanto/BBrovedani:arb
8/27/58

CENTRAL FILES

(2475)

2

Superintendência da Moeda e do Crédito

Rio de Janeiro, 21 de agôsto de 1958.

DE/DIVIN/Cta.105/58

Mr. Jorge Del Canto
Director of Western Hemisphere Department
International Monetary Fund
Washington D.C.
U.S.A.

Prezado Senhor,

De acôrdo com os entendimentos mantidos entre o Govêrno brasileiro e o Fundo Monetário Internacional, temos o prazer de enviar a V.Sa., em anexo, quadros referentes à evolução do movimento cambial, fiscal e de crédito do Brasil, verificado na última semana.

Atenciosas Saudações

DEPARTAMENTO ECONÔMICO
Divisão de Assuntos Internacionais

Herculano Borges da Fonseca
Chefe do Departamento

Christiano N.Sampaio Vianna
Chefe da Divisão Interino

Anexo.

Mod. S. M. C. 7

RECEIVED
SEP 2 1958
Office of the
Deputy Managing
Director

Superintendência da Moeda e do Crédito

Rio de Janeiro, 14 de agôsto de 1958.

Ofício
DE-DIVIN-67/58

Prezado Senhor,

De acôrdo com os entendimentos mantidos entre o Govêrno brasileiro e o Fundo Monetário Internacional, temos o prazer de enviar a V.Sa., em anexo, quadros referentes à evolução do movimento cambial, fiscal e de crédito do Brasil, verificado na última semana.

Aproveitamos o ensejo para reiterar a V.Sa. os protestos de nossa elevada estima e distinta consideração.

José Garrido Torres
Diretor Executivo

Mr. H. Merle Cochran
Acting Managing Director
International Monetary Fund
Washington, D.C.
U.S.A.

/dfm.

SMC - 1

Superintendência da Moeda e do Crédito

Rio de Janeiro, August 8, 1958.

Ofício
DE-DIVIN-63/58

Dear Sir,

According to the agreement between the Brazilian Government and the International Monetary Fund and as per your letter addressed to His Excellency the Minister of Finance of Brazil, we are pleased to enclose several tables containing data on developments in the exchange, credit and fiscal situation of this country, for the period January-June 1958.

The following information will be submitted to you weekly, by air-mail:

1. Total currency issue at the close of the previous week;
2. Outstanding position of Treasury with Banco do Brasil - net balance;
3. Treasury bills - balance in circulation;
4. Total exchange auctioned in previous week:
   (a) Convertible currency
   (b) ACL dollar
5. Average agio for U.S. dollar in previous auction

Data covered under itens 4 and 5 refer only to the turnover for Rio and S. Paulo, due to the impossibility of

Mr. H. Merle Cochran
Acting Managing Director
International Monetary Fund
Washington, D.C. - U.S.A.

/dfm.

SMC - 1

tabulating total results in a short time. The movement of Rio and S.Paulo represent about 60% of the total of the country.

We are sorry not to be able to supply information on "foreign exchange holdings" on a weekly basis.

In accordance with your request we will remit to you monthly, by air-mail, the following data:

1. Total loans and investments of the Bank of Brazil (end of month data):
   (a) to the Federal Government
   (b) to the states and municipalities
   (c) to the private sector

2. Totalloans and investments of the commercial banks (end of month data):
   (a) to the Federal Government
   (b) to the states and municipalities
   (c) to the private sector

3. Liquidity of commercial banks (end of month data):
   (a) Cash on hand (caixa em moeda corrente)
   (b) Legal reserves (encaixe):
      (1) Deposits with SUMOC and Banco do Brasil
      (2) Other
   (c) Deposits:
      (1) Time
      (2) Demand
   (d) Legal reserve ratio (proporção encaixe/depósitos)

4. Total rediscounts and other credits from the monetary authorities to the commercial banks (end of month data)

5. The movement of the "Agios e Bonificações" Account as follows:
   (a) Balance at the beginning of each month
   (b) Gross agios receipts during the month
   (c) Gross payments during the month:
      (1) Bonificaciones
      (2) Coffee financing
      (3) Other
   (d) Balance as of end of month

6. Table prepared by the Contador Geral da República, entitled "Fontes do Deficit de Caixa do Tesouro Nacional e seu Financiamento".

7. Outstanding principal (saldos devedores de principal) on credits for specific projects registered with SUMOC (end of month data):

   (a) In convertible currencies
   (b) In ACL currencies
   (c) In inconvertible currencies

8. General cost of living index.

Within a few days we will send to you table nº 7 containing data on "outstanding principal (saldos devedores de principal) on credits for specific projects registered with SUMOC (end of month data)", referring to last June.

With warm regards we remain

Sincerely yours

José Garrido Torres
Executive Director

Enclosure.

August 25, 1958

Gentlemen:

We write with reference to the Fund's letter dated August 1, 1958 concerning the charges due to the Fund by Brazil pursuant to Article V, Section 8(a) of the Fund Agreement for the quarterly period ended July 31, 1958 amounting to 5,401.041 troy ounces of fine gold.

In this connection the Fund has been advised by the Federal Reserve Bank of New York that 5,401.056 troy ounces of fine gold were transferred to the Fund's account on August 22, 1958 by order of Banco do Brasil. The amount transferred in excess of the above-mentioned charges, namely, 0.015 fine ounce of gold, was added to the 2.222 fine ounces held under earmark for Brazil, thereby making a total of 2.237 troy ounces of fine gold presently held by the Fund at the disposal of Brazil in accordance with the terms of Section I-1 of the Fund's Rules and Regulations.

Sincerely yours,

R. Kroc
Assistant Treasurer for Operations

Y. C. Koo
Treasurer

Superintendencia da Moeda e do Credito
Rio de Janeiro
Brazil

cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

WFWalsh/sl - August 25/58

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK 030137

FILING TIME: 414PM AUGUST 22, 1958

VIA: WESTERN UNION

Number: 151

HAVE EARMARKED FOR YOUR ACCOUNT 5,401.056 TROY OUNCES OF FINE GOLD

BY ORDER OF BANCO DO BRASIL, S.A.

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

Test number checks;

Approved:

Received in Code Room: 6:05 PM August 22, 1958

AUG 19 1958

Dear Mr. Lopes:

On behalf of the Executive Directors and staff, I wish to welcome you into the International Monetary Fund as Governor for Brazil.

Sincerely yours,

H. Merle Cochran
Acting Managing Director

Honorable Lucas Lopes
Governor of the International
Monetary Fund for Brazil
Ministry of Finance
Rio de Janeiro, Brazil

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

GEBishop:mc
8-18-58

AUG 18 1958

Sir:

This will acknowledge and thank you for your cable of August 16, 1958 advising the Fund of the appointment of Mr. Lucas Lopes as Governor of the International Monetary Fund for Brazil.

Very truly yours,

Albert C. Frost
Acting Secretary

Dr. Jose Carrido Torres
Diretor Executivo
Superintendencia da Moeda
e do Credito
120 Avenida Rio Branco, 9° andar
Rio de Janeiro, Brazil

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

GEBishop:me
8-16-58

GEB

030074

SM WUD043 32/31 PD INTL FR

CD RIODEJANEIRO VIA WUCABLES 16 1210

INTERFUND FOR THE SECRETARY

WASHDC

PLEASE BE NOTIFIED OF THE APPOINTMENT BY EXECUTIVE
DECREE OF THE PRESIDENT OF THE REPUBLIC OF
AUGUST 12.1958 MR LUCAS LOPES AS GOVERNOR FOR BRAZIL

SUPERMOCRE

Orig: SEC (Miss Stark)
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

Received Cable Room 12:55 PM August 16, 1958

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERFUND MANAGING DIRECTOR

FROM: JOSE GARRIDO TORRES EXECUTIVE DIRECTOR

FILING TIME: 1906 AUGUST 7, 1958

VIA: WESTERN UNION

029984
030004

Number: - 8 -

REFER TO YOUR CABLE NUMBER 7 JULY 9TH. FUND'S NUMBER ONE ACCOUNT HAS BEEN DEBITED WITH CRUZEIROS 245,125,000 VALUE JULY 8TH AND CRUZEIROS 74,000,000 VALUE JULY 9TH.

JOSE GARRIDO TORRES
EXECUTIVE DIRECTOR
SUPERINTENDENCIA DA MOEDA E DO CREDITO

Orig: TRE
cc: Mr. Paranagua
WHD
SEC

Test number checks:

Approved:

Received in Code Room: 7:45 PM August 7, 1958
9:15 AM August 11, 1958

Superintendência da Moeda e do Crédito

Rio de Janeiro, August 8, 1958.

DE/DIVIN/Cta. 98/58.

Orig. & Encl: ERD
cc of letter: Mr. Paranagua
WHD
Mr. Kalivoda

Exchange Restrictions Department
International Monetary Fund
19th and H. Streets, N.W.
Washington 25, D.C.
U. S. A.

Dear Sir,

Enclosed please find data referring to the auctions of exchange certificates held in Rio de Janeiro from 7.3.58 to 7.31.58 and in São Paulo from 6.25.58 to 7.31.58, as well as average quotations from some foreign currencies in free market in Rio de Janeiro.

Very truly yours,

ECONOMICS DEPARTMENT
Division of International Affairs

Herculano Borges da Fonseca
Chief of the Department

Christiano N. Sampaio Vianna
Acting Chief of the Division

Encl.

MBC/RM

OFFICIAL | **OUTGOING MESSAGE** | **OFFICIAL**

FOR PREPARING OFFICER
- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

Code

Dr By WFWalsh/al
Department Office of the Treasurer
Date August 1/58

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM
Time Received 2:20 PM
Time Dispatched 3:27PM
Number of Words 12
Log 25183
Route WU
Operator AT

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: Superintendencia da Moeda e do Credito
Rio de Janeiro, Brasil

No. 10

Charges due pursuant to Article V, Section 8(a) for period ended July 31, 1958 amount to 5,401,041 troy ounces of fine gold; advice airmailed today. These charges are payable within 30 days from date of cable.

Test No. INTERFUND

cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

DISPATCHED AUG 1 1958 CODE ROOM

DO NOT TYPE BELOW THIS LINE

INTERNATIONAL MONETARY FUND
WASHINGTON 25,D.C.

CABLE ADDRESS
INTERFUND

July 30, 1958

To: Director, Western Hemisphere Department
Director, Exchange Restrictions Department
General Counsel
Treasurer
Comptroller
Internal Auditor

From: The Secretary

Subject: Stand-by Arrangement and Exchange System - Brazil

At Meeting 58/40, July 30, 1958, the Executive Board agreed to the recommendations set forth in EBS/58/38 (7/25/58).

RLH

OFFICIAL | OUTGOING MESSAGE | OFFICIAL

FOR PREPARING OFFICER

- [ ] Night Letter
- [ ] Ordinary
- [x] Code

SPECIAL INSTRUCTIONS

Cleared with:
Mr. Horne
Mr. Friedman
Mr. Gold
Mr. Costanzo

EBS/58/38, 7/25/58
EBM/58/40, 7/30/58

Drafted By F. Hodel

Department Secy's Office

Date July 30, 1958

AUTHORIZATION

/s/ Per Jacobsson
Signature

Second Signature When Required

FOR CODE ROOM

Time Received 2:50 PM
Time Dispatched 3:10 PM
Number of Words 127
Log 25161
Route ALL AMERICA
Operator AMT

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C

To: Dr. Jose Garrido Torres
~~Diretor Executivo~~
Superintendencia da Moeda e do Credito
~~120 Avenida Rio Branco, 9º andar~~
Rio de Janeiro, Brazil

No. 9

Executive Board took following decision today:

QUOTE 1. The letter of July 25, 1958 from the Minister of Finance of Brazil shall be annexed to the stand-by arrangement with Brazil (EBS/58/25, Sup. 3), and the references in the stand-by arrangement to the policies and intentions of Brazil set forth in the letter of May 26, 1958 shall be understood to mean those policies and intentions as modified by the letter of July 25, 1958.

2. The Fund does not object on a temporary basis to Brazil's multiple currency practices as described in the appendix to EBS/58/38. The Fund continues to urge Brazil, however, to press forward with unification of the rate structure at a level appropriate to the prospective balance of payments. The Fund will remain in consultation with Brazil with respect to this matter UNQUOTE

Per Jacobsson
Managing Director

DISPATCHED
JUL 30 1958
BY
CODE ROOM

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
ERD
WHD
LEG
RES
TRE
SEC

DO NOT TYPE BELOW THIS LINE

Office Memorandum

TO : Mr. C. David Finch DATE: July 28, 1958

FROM : G. Escobar

SUBJECT : Brazil--Seasonality of Selected Monetary Series

An attempt is made below to identify the trend and to measure seasonal variations in four monetary series, selected in view of their importance to targets of monetary stabilization policies in Brazil. The series discussed are: currency issued; loans of the Bank of Brazil to the nonbanking public; loans of the Bank of Brazil to states and municipalities; and rediscounts and other credits to commercial banks.

1. Currency issued

The upper panel of Chart 1 presents the volume of currency issued and its trend is shown as a 12-month moving average of the original data. Since the end of 1954 the rate of increase has declined from an average rise of 2.0 per cent per month in 1954 to an average increase of 1.5 per cent per month during January-September 1957. The Chart indicates the existence of a seasonal pattern with a seasonal high in December of each year, reflecting the larger needs for cash balances during the Christmas holidays. Seasonal factors, based on monthly data for the period 1953-58 are shown on Chart 3a.[1] During the first half of the year the series tends to remain slightly below the trend line; a low of 98.4 per cent occurs in March, and a peak of 103.9 per cent is normally reached in December. Therefore, even if the trend is stabilized during the second half of 1958 at, say, Cr$100 billion, seasonal factors are likely to result in a rise of about 4 per cent at the end of the year, thus bringing the volume of currency issued to about Cr$104 billion by December 1958.[2]

Average Monthly Rates of Change in Four Credit Series

(In per cent)

	1954	1955	1956	1957
Currency issued[1]	2.0	1.6	1.4	1.5
Rediscounts[1]	0.1	[3]	[3]	0.1
Credit to private nonbanking sectors[1]	3.2	1.2	1.4	1.9
Credit to states and municipalities[2]	10.2	1.7	0.8	-0.7

Source: SUMOC, Boletim, and Bank of Brazil, Relatorio.

1/ Monthly average of December to December changes in the 12-month moving average of the original series. For 1957, the changes shown cover the period December 1956 to September 1957.

2/ Monthly average of the December to December change in the original series.

3/ Less than 0.05 per cent.

1/ Seasonal factors are computed by the standard ratio-to-moving average method.

2/ The volume of currency issued reached Cr$100.4 billion on May 10, 1958, suggesting a further rise of the trend during 1958.

2. Loans to the private sector

Credit of the Bank of Brazil to the private nonbanking sector has risen rapidly since 1954. There was some reduction in the rate of increase in 1955, and a new expansion in 1956 and 1957; for the first nine months of 1957 the rate of growth was nearly 2 per cent per month. The marked seasonal movement of the series reflects the seasonality of requirements of financing of coffee exports and of industry, both of which have seasonal peaks towards the end of the year. The seasonal variation in total loans is reduced somewhat by the offsetting seasonal pattern of agricultural credit, since borrowing starts in April-May and repayments begin after July. As shown in Chart 2, agricultural credit reaches a seasonal high at the time of the coffee harvest.

The average seasonal pattern of total loans is shown on Chart 3b. The maximum deviation from the trend is 7.5 percentage points, from a low of 96.2 per cent in May to a high of 103.7 in December. Consequently, even if the trend in total loans is assumed to be stabilized by midyear at, say, Cr$96 billion, seasonal factors would result in an expansion to Cr$99.6 billion by December 1958.

3. Loans to states and municipalities

Bank of Brazil loans to states and municipalities (except for a small rise in December in each year) show no apparent seasonality. The trend has been downward in 1957, with an average monthly decline of 0.7 per cent per month.

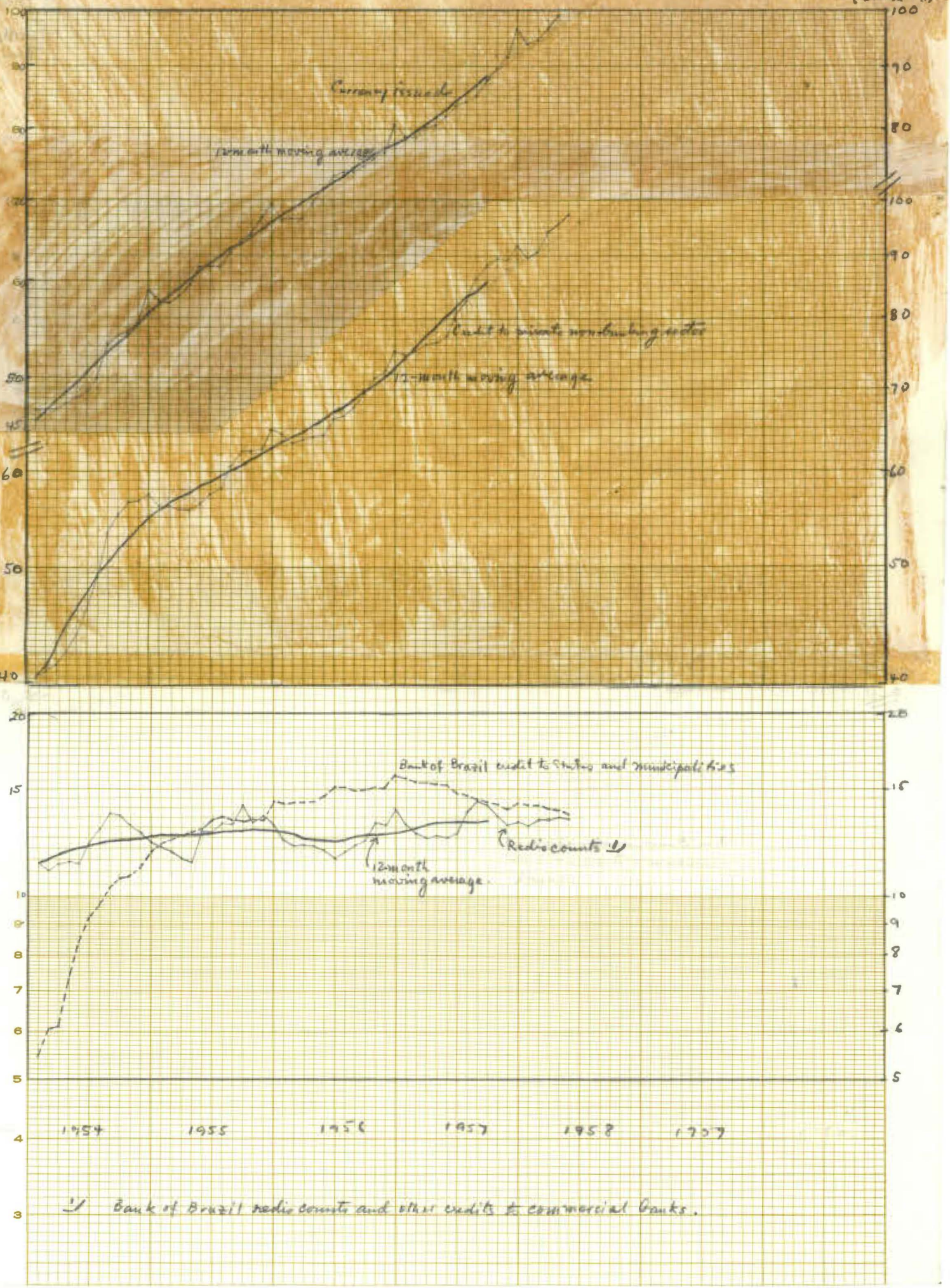
4. Lending to commercial banks

Rediscounts and other credits to commercial banks show relatively wider seasonal variations than any of the other three main time series discussed above. The seasonal peak which occurs in September is, on the average, 8 per cent above the trend, while the trough (in April) is 6 per cent below the trend (see Chart 3c). Thus the range of seasonal variation amounts to about 14 percentage points[1]. As shown on Chart 1, the trend has been slightly upward since 1954, with the exception of 1956, when rediscounts declined a little during the middle of the year. The monthly rate of change in the trend has been, on the average, very small with a rate of increase of slightly less than 0.1 per cent per month during January-September 1957. It should be noted that loans to commercial banks do not include rediscounts of the Rediscount Department (Carteira de Rediscontos) to the Bank of Brazil itself, which are apparently large[2].

1/ Seasonal factors have been computed with monthly data from 1951 through March 1958. Data for 1953 were partly estimated.

2/ The series on rediscounts and other credits to commercial banks shown on Chart 1 comprise credit extended by the Rediscount Department of the Bank of Brazil, by the Caixa de Mobilizacao Bancaria, and by the Bank of Brazil on its own account.

Chart 1. Currency issued and credit extended by the Bank of Brazil



1/ Bank of Brazil rediscounts and other credits to commercial banks.

EUGENE DIETZGEN CO. MADE IN U.S.A.
NO. 341-L212 DIETZGEN GRAPH PAPER
SEMI-LOGARITHMIC
2 CYCLES X 12 DIVISIONS PER INCH

Chart 2a Bank of Brazil credit to the private non-banking sector

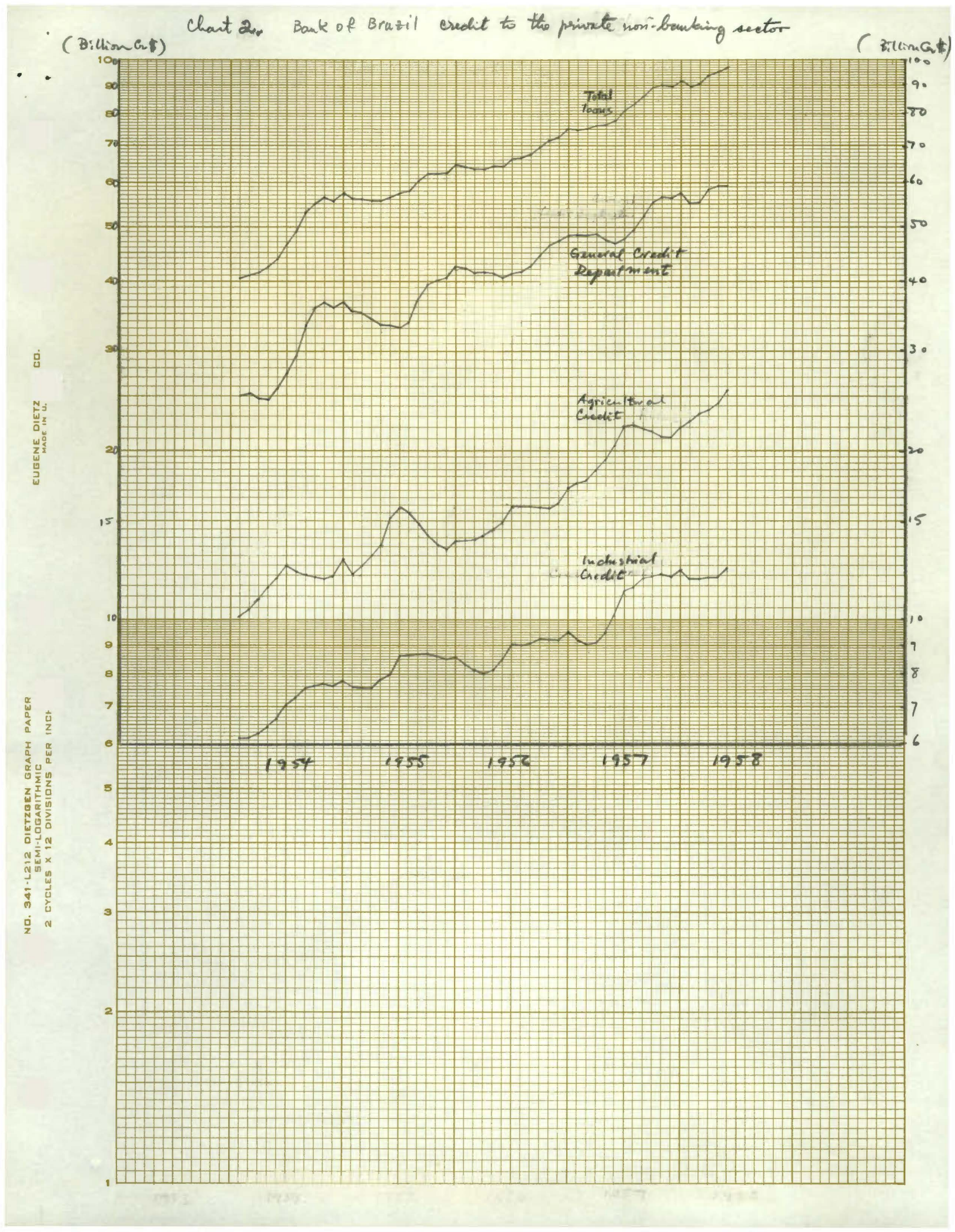
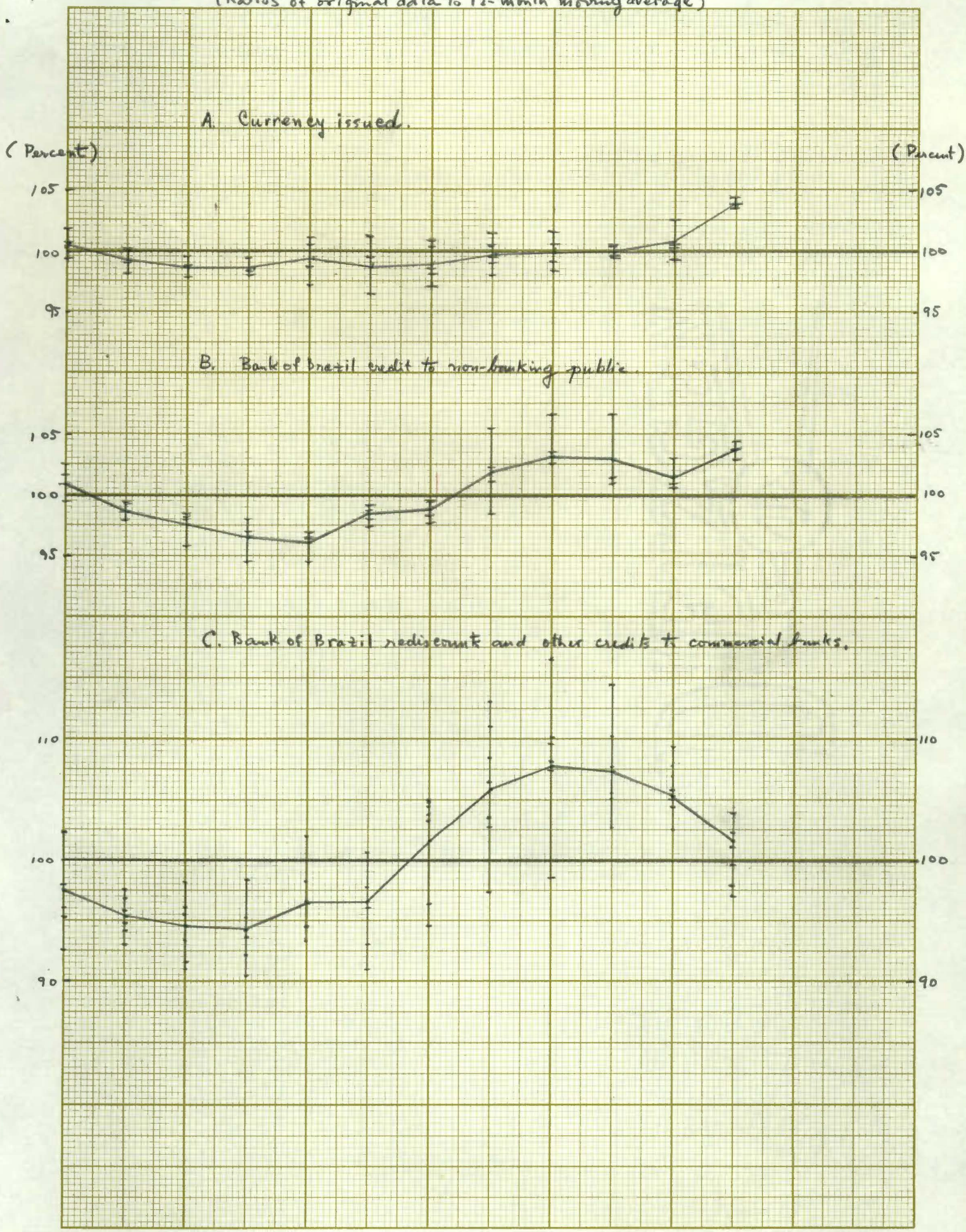


Chart 3. Seasonal factors for three monetary series.
(Ratios of original data to 12-month moving average)



EUGENE DIETZ CO. MADE IN U.S.A.
NO. 341-20 DIETZGEN GRAPH PAPER 20 X 20 PER INCH

Mr. Horne July 28, 1958

Irving S. Friedman, Joseph Gold, and G. A. Costanzo

Brazil

Attached is a draft of an opening statement which we recommend that Mr. Jacobsson make on the presentation of the Brazilian item to the Board this afternoon.

The next item involves the adaptation of certain understandings between Brazil and the Fund for the purposes of the stand-by arrangement of June 2, 1958, as well as Fund approval on a temporary basis of Brazil's multiple currency practices. When the new Minister of Finance of Brazil took office towards the end of June, he reviewed the situation, including the stand-by arrangement with the Fund, and came to the conclusion that he would have to recommend certain adaptations of policy. Thereupon, he promptly sent representatives to the Fund for discussion with the management and staff for the purpose of revising the policies and intentions in the letter annexed to the stand-by arrangement. The purpose of these discussions has been to reach an understanding on the policies and intentions which will preserve and promote the objective of monetary stability, the foundation of the stand-by arrangement, which will also provide the basis for the needed comprehensive exchange reform.

We believe that the policies and intentions as set out in the Minister's letter of July 25, 1958 provide a reasonable prospect that this objective has been attained. We have also had discussions of the changes in the exchange system, which is now set forth in detail in the appendix to the paper. As a result of these discussions, we have prepared EBS/58/38, and our recommendation will be found on page 5.

Office Memorandum

TO : Mr. Per Jacobsson, Managing Director DATE: July 25, 1958

FROM : O. Paranaguá, Executive Director

SUBJECT : Brazil.

I have been instructed by the Brazilian Minister of Finance to transmit to you in advance the attached text of a letter which he is sending to you.

Attachment.

DRAFT
July 25, 1958

Dear Mr. Jacobsson:

The Brazilian Government in its letter of May 26, 1958 indicated the seriousness of Brazil's current payments problem and outlined the policies which Brazil planned to adopt. On the basis of this letter, the International Monetary Fund agreed to the stand-by arrangement of June 2, 1958. Unfortunately, circumstances have compelled a change in these policies in two important respects, the coffee policy and the planned payments deficit. In this letter, I wish to advise the Fund of these changes and of the measures planned by the Government to keep intact the original objective to attain internal and external equilibrium.

First, with respect to coffee, it has not been found feasible to implement the severe coffee program which was stated to the Fund. Consequently, the Government has adopted the following coffee program which went into effect on July 1. Under the new coffee policy, instead of surrender without purchase, the Government will buy 40 per cent of the 1958/59 crop. However, the prices to be paid for this portion of the crop will be considerably below market prices and the cost will not exceed Cr$13 billion. To this cost has to be added that for purchase in 1958/59 of 1.5 million bags remaining from the 1957/58 coffee crop at an additional cost of Cr$4.2 billion. On the other hand, the Government expects to recover Cr$3.5 billion from an increase in domestic consumption. Thus, the Government expects a net outlay for coffee purchases in 1958/59 of about Cr$13-14 billion. With respect to the 60 per cent of the 1958/59 coffee crop destined for export, it is the Government's policy to encourage the free movement of this coffee. To this effect, exporters will not be given the option to sell coffee to the Government prior to the end of the crop year. While it is not

certain that this amount will be exported in full, the policy will minimize the problem of financing any carry-over of the current export crop. In addition to the increased outlays for coffee purchases for stockpiling the return to the producers has been increased by a depreciation in the effective exchange rate. Whereas previously coffee exports received an average exchange rate of about Cr$43 per U.S. dollar, the system of bonuses has been revised to increase the average effective rate to about Cr$54 per U.S. dollar.

In accordance with the clear objective of the Government to attain monetary stability, and the difficulty of undertaking further action in the fiscal and credit fields at this time, the Government has decided to adopt adjustments in the exchange system to offset any increased expansionary effects of Brazil's coffee policies. Therefore, the Government will in the near future adopt such adjustments as will provide sufficient additional exchange profits to offset the monetary effects of the revised coffee program described in the previous paragraph.

With respect to the planned exchange deficit, a re-examination of the position has demonstrated that despite rigid adherence to the exchange budget expenditures, it will not be possible to hold the deficit in 1958 in convertible and ACL dollars to $200 million. It remains our policy, however, to reduce the deficit as much as possible in 1958, and to bring Brazil's external accounts into balance in 1959. Immediate measures will be taken, which we believe will be adequate, to attain this objective.

The Government recognizes that a more realistic exchange rate structure is required for enduring domestic and external stability. Accordingly, the Government will make a complete review of the exchange system later in the year.

Apart from the changes referred to above, the Government reiterates its determination to implement the fiscal, credit, and all other policies set forth in the letter annexed to the stand-by arrangement with the Fund.

Brazil would welcome a visit by the Fund staff near the end of 1958 to assist in the review of the progress of Brazil's policies and in the contemplated revision of the exchange system. On the same occasion, Brazil will consult with the Fund for the purpose of paragraph 4 of the stand-by arrangement.

Sincerely yours,

Minister of Finance of Brazil

Mr. Per Jacobsson
Managing Director
International Monetary Fund
19th and H Streets, N. W.
Washington, D. C.

(25/VII/58)

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: MANAGING DIRECTOR, INTERFUND
JOSE GARRIDO TORRES, EXECUTIVE DIRECTOR
FROM: SUPERINTENDENCIA DA MOEDA E DO CREDITO, RIO DE JANEIRO 029853

FILING TIME: ~~1815 July 23, 1958~~

VIA: ACR

Number: 7

REFER TO YOUR CABLE OF THIS MONTH DATED 11. FUND'S NUMBER ONE ACCOUNT WAS CREDITED WITH CRUZEIROS 319,125,000 VALUE AS OF JULY 14, 1958

JOSE GARRIDO TORRES
EXECUTIVE DIRECTOR
SUPERINTENDENCIA DA MOEDA E DO CREDITO

Orig: TRE
cc: Mr. Paranaguá
WHD
SEC

In Fund's cipher
Test number checks
Approved:

Received in Code Room: ~~6:10 PM July 23, 1958~~

Vie. Brazil

JUL 23 1958

Dear Mr. Correa:

As I suggested to you in some of our discussions, I have had a table prepared showing the effective exchange rates in Brazil as of July 16, 1958. I am attaching this table, and would very much appreciate any comments you might make or corrections you might propose.

Sincerely yours,

Irving S. Friedman
Director
Exchange Restrictions Department

Attachment

Mr. Paulo Pook Correa
Director, Exchange Department
Bank of Brazil
Rio de Janeiro, Brazil

cc: Mr. Del Canto ✓
Mr. Gold

WJRWoodley:mtd
7/23/58

Table of Exchange Rates: Brazil
(as of July 15, 1958)

(Cruzeiros per U.S. dollars)

Buying	Selling
18.36 (Official Rate)	18.82 (Official Rate)
18.50 (Parity Rate)	
Government and official receipts.	26.32[1/] Imports of newsprint by printers whose publications weigh 80 grams or less.
37.06 (Cr$18.36 plus Cr$18.70 bonus) plus a variable bonus.[2/]	
Category 1 exports: coffee beans.	33.82[1/] Imports of newsprint by other printers.
43.06 (Cr$18.36 plus Cr$24.70 bonus)	
Category 2 exports: cocoa beans and derivatives	58.82 (Cr$18.82 plus Cr$40.00 surcharge)
	Government payments, certain preferential imports including wheat, petroleum and petroleum derivatives, imports of equipment for use in prospecting and producing crude petroleum, payment for services in connection with prospecting and producing crude petroleum, books, maps, negatives, amortization and interest on loans and credits approved and registered by SUMOC for preferential exchange treatment up to June 10, 1958, and on loans and credits approved and registered from June 10, 1958 when connected with the exploration or production of petroleum.
70.00 (Cr$18.36 plus Cr$51.64 bonus)	70.00 (Cr$18.82 plus Cr$51.18 surcharge)
Category 3 exports. Cotton linters and residual products of the processing of textiles, leaf tobacco, castor oil seeds, manganese ore, carnauba wax, carnauba wax, unmanufactured cane sugar, yerba mate, and raw hides.	Other preferential imports including fertilizers, insecticides, and the like for use in agricultural activities. Imports of printing and publishing equipment, parts and spares, and equipment considered essential for economic development or national security, as well as

Table of Exchange Rates: Brazil (continued)

Buying	Selling
	amortization and interest on registered loans and credits for financing such imports when approved and registered for BUNDU for preferential exchange treatment after June 10, 1958.
92.00 (Cr$18.36 plus Cr$73.64 bonus) Category 4 exports: all other products (excluding precious and semiprecious stones and reading material published in Brazil.	
134.00 1/ Fluctuating free market rate) All incoming capital receipts, most invisibles, including travel exchange, exports of precious and semiprecious stones, reading material published in Brazil, other items not included in the official market.	137.00 2/ (Fluctuating free market rate) All capital transactions and income thereon, not effected at preferential rates. All non-trade invisibles.
	154.42-159.02 (Cr$18.82 plus Cr$135.60-Cr$140.20 4/ auction premiums) General category imports.
	323.82 (Cr$18.82 plus Cr$302.00 auction premium. 3/

1/ The rate for imports of newsprint is calculated in accordance with the provisions of Law No. 3244 of August 14, 1957, Article 50 (3) which provides for an upward adjustment in the rate for newsprint imports each semester. The above rates provide for the adjustment which became due on July 1, 1958.

2/ An additional variable bonus is paid on coffee exports when the export value of a 60 kilogram bag of coffee is higher than US$40. The bonus is paid at the rate of 3 per cent for each dollar above the floor price of $40 per bag. At present coffee prices the average effective rate for coffee exports works out to about 54-55 cruzeiros per U.S. dollar.

3/ Quotation for the U.S. dollar as of July 16, 1958.

4/ The selling rate has been calculated from figures of auction premiums representing the lowest and highest bids for the U.S. dollar (120 days delivery) in Rio de Janeiro on July 16, 1958.

WITHDRAWAL NOTICE

PROJECT

Project number	2006-001
Project name	WHDAI/Western Hemisphere Ii
Project tab number	162
Project box number	2

DOCUMENT

Series / File	WHDAI/Country Files Brazil Ja
Original box /file No	31/3
Date	July 22, 1958
Type	Drafts
From	WHD
To	MD
Subject / Title	Memo from G. A. Costanzo says these letters were handed to the Brazilians this afternoon.
Number of pages	5
Classification	SECRET
Authority	Western Hemisphere Department

COMMENTS

THIS DOCUMENT IS IN THE COURSE OF A SYSTEMATIC PUBLIC DISCLOSURE REVIEW PROCESS

Entered by jdurkin Entered on 9/13/2006

MW Del Canto

The Managing Director

July 22, 1958

Irving S. Friedman, Joseph Gold
and G. A. Costanzo

Brazil

The staff met with the representatives of Brazil and Mr. Paranagua. We outlined to them the position agreed with you, making it clear that this position had been cleared with the management. After some discussion, they expressed their willingness to recommend to their Minister the acceptance of the staff position, and requested staff assistance in drafting the suggested public letter to the Board and secret letter to the Managing Director. Attached hereto are suggested drafts of such letters, which we have not yet given to the Brazilian representatives pending your approval. The Brazilian representatives have been pressing us for the draft letters, but we have indicated to them that the letters are not as yet ready for transmission to them.

Attachments

cc: The Deputy Managing Director

Draft
July 22, 1958

Dear Mr. Jacobsson:

The Brazilian Government in its letter of May 26, 1958 indicated the seriousness of Brazil's current payments problem and outlined the policies which Brazil planned to ~~take~~ adopt. On the basis of this letter, the International Monetary Fund agreed to the stand-by arrangement of June 2, 1958. Unfortunately, circumstances have compelled a change in these policies in two important respects, covering the coffee policy and the planned payments deficit. In this letter, I wish to advise the Fund of these changes and of the measures planned by the Government to keep intact the original plan to attain internal and external equilibrium.

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crop destined for export, it is the Government's policy to encourage the free movement of this coffee without minimum price controls. While it is not certain that this amount will be exported in full, the policy will minimize the problem of financing any carry-over of the current export crop. In addition to the increased outlays for coffee purchases for stockpiling the return to the producers has been increased by a depreciation in the effective exchange rate. Whereas previously coffee exports received an average exchange rate of about Cr$43 per U.S. dollar, the system of bonuses has been revised to increase the average effective rate to about Cr$54 per U.S. dollar.

In accordance with the clear objective of the Government to attain monetary stability, and the difficulty of undertaking further action in the fiscal and credit fields at this time, the Government has decided to adopt adjustments in the exchange system to offset any increased expansionary effects of Brazil's coffee policies. Therefore, the Government will in the near future adopt such adjustments as will offset the monetary effects of the revised coffee program described in the previous paragraph.

With respect to the planned exchange deficit, a re-examination of the position has demonstrated that despite rigid adherence to the exchange budget expenditures, it will not be possible to hold the deficit in 1958 in convertible and ACL dollars to $200 million. It remains our policy, however, to reduce the deficit as much as possible in 1958, and to bring Brazil's external accounts into balance in 1959. Immediate measures will be taken, which we believe will be adequate, to attain this objective.

The Government recognizes that a further reform of the exchange system is required for enduring domestic and external stability. Accordingly, the Government will make a complete review of the exchange system later in the year.

Apart from the changes referred to above, the Government reiterates its determination to implement the fiscal, credit, and all other policies set forth in the letter annexed to the stand-by arrangement with the Fund.

Brazil would welcome a visit by the Fund staff near the end of 1958 to assist in the review of the progress of Brazil's policies and in the contemplated revision of the exchange system. On the same occasion, Brazil will consult with the Fund for the purposes of paragraph 4 of the stand-by arrangement.

Sincerely yours,

Minister of Finance of Brazil

Mr. Per Jacobsson
Managing Director
International Monetary Fund
19th and H Streets, N. W.
Washington, D. C.

AUTORIDADES MONETÁRIAS

Análise das causas da expansão da circulação de papel-moeda, segundo os principais grupos de operações

Em milhões de cruzeiros

Grupos de contas	1955	1956	1957	1958		Total
				Jan./maio	Junho/dezemb.	
I – Bancos Comerciais	– 2.608	– 2.451	– 18.853	+ 6.836	–	+ 6.836
II – Tesouro Nacional	+ 8.288	+ 24.348	+ 38.869	+ 1.364	+ 5.636	+ 7.000
III – Governos estaduais e municipais	+ 2.477	+ 1.020	– 1.429	– 559	– 441	– 1.000
IV – Autarquias e outras entidades públicas	– 116	– 2.401	– 5.337	– 1.685	– 1.305	– 3.000
V – Público	+ 6.948	+ 7.940	+ 11.838	+ 1.591	?	+ 1.591
VI – Operações ligadas às reservas internacionais	– 1.683	+ 3.604	? 1.753	– 1.619	– 1.881	– 3.500
VII ? Saldo líquido de ágios e benificações	– 8.170	– 18.039	– 16.876	– 10.879	–11.000 (?)	– 21.879
VIII – Financiamentos à Comissão de Financiamento da Produção e ao Instituto Brasileiro do Café para compra de produtos de exportação	+ 5.861	+ 1.203	+ 11.464	+ 9.645	+ 9.000	+ 18.645
IX – Compra e venda de produtos de exportação e importação	– 1.397	– 114	+ 2.915	+ 671	?	+ 671
X – Demais contas	– 3.697	– 2.787	– 5.921	– 916	– 1.084	– 2.000
Papel-moeda em circulação	+ 9.269	+ 12.323	+ 15.517	+ 4.449	– 1.085	+ 3.364

CR/mac
21.7.58

Minutes of Meeting with Brazilian Representatives
Monday, July 21, 1958 at 10.30 a.m.

Present:

For the Fund	For Brazil
Mr. Jorge Del Canto	Mr. O. Paranaguá
Mr. Irving S. Friedman	Mr. Pinheiro
Mr. G. A. Costanzo	Mr. Correa
Mr. J. Gold	Mr. Ribeiro
Mr. C. David Finch	

Mr. Del Canto opened the discussion by emphasising the importance of the agreement with Brazil for Fund relations with other countries. He instanced the frequent references to the existing arrangement made to him while in Argentina recently. From this experience he felt it was very important that any revised plan kept intact the main feature of the plan, namely the achievement of internal monetary stability.

Mr. Friedman then explained the position of the Fund staff, a position which had been cleared with Mr. Cochran and Mr. Jacobsson, about the specific steps to be taken at this time. He explained that to the Fund the exchange system was never satisfactory. The plan had been acceptable only as a first step on the basis that internal stabilization would be achieved in this phase and that the full exchange reform would come next. The staff felt that the changes that had been made in the coffee policy destroyed this agreement. The new coffee stockpiling policy would use the exchange profits instead of permitting them to be sterilized to offset the budget deficit and credit expansion. Thus, there would be no internal stabilization and no basis for progress.

To keep intact the basis of the stand-by plan it was necessary to re-establish the plan for internal stability. As it seemed unrealistic to expect further improvement in the budget or credit fields, the offset to the changed coffee policy had to come from the exchange system. By increasing the exchange rate for preferential payments to Cr$80, it would be possible to re-establish internal balance. The staff believed this change should be made immediately, but in view of the practical problems it was agreed the introduction of the new rate might wait until mid-October. For the same consideration the staff raised no objection to a delay until September in the reduction of the amount of foreign exchange auctioned.

Passing to the procedures, Mr. Friedman added that the staff recognized that the Brasilian authorities would not wish to make public commitments on future exchange rate movements. Consequently, the staff proposed that two letters be sent to the Fund, one of which would be couched in general terms and would be circulated to the Board, while the second containing specific undertakings would be kept secret.

Mr. Gold emphasized that the suggested procedure would maintain the continuity of the stand-by.

Mr. Ribeiro noted that although the coffee policy was more inflationary than before, he had figures indicating that due to previous deflationary forces in the plan it would be financed without inflation. He did not wish to emphasize these estimates, however, for it was agreed that there were clearly inflationary dangers in the over-all position of Brasil.

Mr. Costanzo explained in detail the proposed content of the two letters.

In reply Mr. Correa explained that the proposals exceeded the Government's present intentions. At the present time the Government planned only to increase the preferential rate to Cr$70 per US$1 in October. They would have to discuss the proposal of Cr$80 per US$1 with the Minister by telephone. He explained that he personally was in favor of the proposal. Even this increase from Cr$70 to Cr$80 would have some impact in reducing the demand for preferential exchange. With the budgetary situation so difficult he felt the increase in cruzeiro cost of dollar expenditures would result in economies. However, it was a serious decision to take and the Minister would have to make the final decision.

Mr. Pinheiro mentioned that he believed the Government was concerned at the cost of living impact of an increase in this rate. An increase in the price of petroleum and of wheat would raise costs and might tip the scales in favor of wage increases at this time.

Mr. Costanzo and Mr. Friedman explained that the alternative to this increase in preferential rate was inflationary borrowing from the Central Bank. This borrowing would more certainly increase the cost of living than the rather minor direct impact of preferential imports. Mr. Costanzo indicated that although he would prefer not to recommend it, selective subsidies for a transitional period to cushion the impact in politically sensitive prices might be preferable to a subsidy on imports in general. In particular, public transport might be temporarily subsidized if the political problems were considered important.

Mr. Paranaguá emphasised his belief that the increase in the preferential exchange rate be gradual. He believed that an increase to Cr$70 in October and to Cr$80 in January or February was more practicable. It was pointed out by the staff that a movement to Cr$80 was in itself a compromise proposal. It was the staff's judgment that a more appropriate rate was in the vicinity of Cr$100 to Cr$120. Mr. Correa expressed his full agreement with this position. The staff also noted that with the projected 20 per cent reduction in exchange auctioned the spread in the exchange rates would probably widen despite an increase in the preferential rate to Cr$80.

The Brazilian representatives agreed to telephone the Minister to determine his views on the proposal to increase the rate to Cr$80. In the meantime they asked the staff to prepare draft letters on the lines suggested, including the undertaking to move the preferential rate to Cr$80 in October.

The Managing Director July 17, 1958

Irving S. Friedman and G. A. Costanzo

Brazil: Modification of Stand-by Arrangement

1. We have continued the discussions with the Brazilian representatives. They have indicated that the purpose of the visit is to inform the Fund of the current situation in Brazil and the policies of the present Minister of Finance. They appreciate that they are not adhering to a number of the commitments undertaken in June in connection with the stand-by agreement, and are seeking the Fund's reaction to the present policies. They have also informed us that they are simultaneously discussing financial assistance with the Export-Import Bank and other sources. Our impression is that they would like to have at least the Fund endorse their new policies. We wish to obtain your reaction to their proposals before discussing with the Brazilian representatives the regularizing of their position vis-a-vis the Fund. We would like to note at the outset that there seem to be two major deviations in the present Brazilian program from what was agreed in June. There is a major change in the coffee program and a substantial increase in the anticipated balance of payments deficit for 1958.

2. Coffee program and export rate. Under the stand-by arrangement, Brazil was to limit purchases of coffee to the shortfall in exports below 15 million bags. The new Minister of Finance, however, found this program to be unrealistic. Moreover, the estimate for the new coffee crop is closer to 27 million bags, as compared with the 25-million bag estimate in June. The new policy, which went into effect on July 1, provides for purchase of the entire exportable coffee crop in excess of 16 million bags. This excess is estimated at about 11 million bags, which the Government will buy at a declared price substantially under the world market price. This stockpiling program will cost the Government an estimated Cr$12 billion, which would be about Cr$6 billion more than the amount estimated in June. The Brazilian Government expects to obtain a 50 per cent increase in domestic consumption by offering the surplus coffee at reduced prices. On this basis, the Brazilian Government would recover Cr$3.5 billion of the outlay for coffee stockpiling. However, there will be an additional financial burden at the end of the year for the purchase of any shortfall in exports below the 16-million bag target, although the Government does not intend to announce this policy or declare the price. In addition, there remains for financing in the crop year 1958-59 the purchase of a carryover of 1-1/2 million bags from the 1957-58 crop year now in the hands of exporters. This would cost the Government a maximum additional Cr$4 billion.

Brazil intends to finance the new coffee program from exchange profits, which would thus not be available to offset expansionary factors from other sectors of the economy in accordance with the commitment under the present stand-by arrangement. The Brazilian representatives stated that the new Minister of Finance did not consider that a more austere coffee program was feasible. The Government will make no attempt to maintain any price for the coffee destined for export. The effective exchange rate for coffee has been depreciated through the system of variable bonuses, so that the present rate is about Cr$54-55 per US$1, as compared with Cr$45 per US$1 anticipated in June.

3. Payments deficit. Under the stand-by arrangement, Brazil undertook to limit its payments deficit in dollars and ACL currencies in 1958 to $200 million. Brazil has now re-examined its payments position and concluded that it will not be possible to reduce the payments deficit in these currencies in 1958 below a figure of approximately $320 million. The Brazilian representatives attribute the increase in the deficit to the following factors: (a) export proceeds will be $60 million less than originally estimated; (b) payments will exceed the original estimates by $60 million due to suppliers' credits incurred in the first half of 1958 and a new appraisal of short-term exchange obligations maturing in 1958.

The Brazilian representatives indicated, however, that it is their intention to obtain balance of payments equilibrium in 1959 primarily through reduction in payments of approximately $250 million. Approximately $75 million of this reduction will be accomplished by reducing exchange offered in the auction market by 20 per cent. The Brazilian representatives expect the reduction to begin in September and, therefore, the impact on exchange payments would be felt at the beginning of 1959 since exchange is sold on a 120-day basis. The Brazilian representatives have undertaken to provide us with additional details as to where other cuts will occur.

The balance of payments projections for 1958 seem reasonable. You may recall that it has been the staff's position all along that immediate reduction in auctions and a change in the exchange system were necessary if the deficit was to be kept down to the original figure of $200 million. When queried by the staff as to why there had not yet been a reduction in auctions in view of the increase in the anticipated deficit, the Brazilian representatives said that the Minister of Finance felt that it was impossible to reduce auctions at the same time as he was acting with respect to the coffee program and further restraint of budget and credit.

4. Fiscal and credit policies. The Brazilian representatives reviewed developments with respect to fiscal and credit policies during the first five months of 1958 in relation to commitments undertaken under the stand-by. In the first five months of 1958, the budgetary deficit amounted to Cr$14 billion. The Brazilian representatives indicated, however, that the new Minister of Finance is determined not to exceed a deficit of Cr$20 billion in 1958. He has put into effect an economy program which Brazil committed itself to under the stand-by arrangement and intends to effect further economies. The staff questioned the feasibility of achieving this fiscal target, particularly in view of the past seasonal pattern of larger expenditures in the second half of the year than during the first. The Brazilian representatives said that they were aware of the difficulties but that the Minister was determined to reach the target.

With respect to credit policy, Brazil is within its commitment with respect to the ceiling on Bank of Brazil loans to State and municipal governments and rediscount to the commercial banking system. The 5 per cent maximum expansion for Bank of Brazil credit to the private sector has, however, already been exceeded. The Brazilian representatives indicated that the Minister of Finance intends to comply with the established ceiling. The staff again queried the Brazilian representatives as to the feasibility of this objective, particularly in view of the seasonal increase in credit in the last half of the year for

financing coffee. The Brazilian representatives replied that, although financing for coffee would increase in the last half of the year, it was the intention of the Brazilian authorities to reduce other credits to compensate for this increase.

Under the stand-by, Brazil also committed itself to obtaining legislation which would permit an increase in bank legal reserve requirements to 12-24 per cent for time and demand deposits respectively. The Brazilian representatives indicated that enactment of this legislation is expected in the near future. In this connection, the staff discussed with them the considerable expansion of commercial bank credit which has taken place in the last few months, although recognizing that there was no direct commitment on this aspect under the stand-by arrangement.

Under the stand-by arrangement, Brazil also undertook to maintain currency issue during 1958 under Cr$102 billion. As of the end of May, currency issue amounted to Cr$103 billion. Here again, the Brazilian representatives indicated the firm intention of their Government to comply with this ceiling.

5. Exchange system. The Brazilian representatives indicated that they had gone ahead with the exchange rate adjustments promised in June. The only exception is that petroleum equipment and related services have been given the Cr$58.82 rate instead of the Cr$70 rate. On the other hand, the rate of Cr$70 has been applied for equipment imported under credit arrangements, whereas under the June understanding this rate was to be kept at Cr$58.82. The staff said that it was still their view that the preferential import rate should be about Cr$90-100. The Brazilian representatives replied that serious consideration was being given to the abolition of the Cr$58.82 rate and moving the products affected to the Cr$70 rate, but that this could not be done until after the elections in early October. The staff indicated that this would of course be a welcome step but quite insufficient for the needs of Brazil. At this point Mr. Correia mentioned the possibility of further consultations between Brazil and the Fund later in the year to discuss the reform of the exchange system.

On the export rates, a few minor questions were reviewed in addition to coffee.

Staff evaluation

The revised Brazilian program is clearly not in accordance with the terms of the stand-by arrangement. Moreover, the new program cannot be regarded as satisfactory by the criteria used in agreeing to the stand-by arrangement. It does not offer the same expectation of achieving monetary stability. In brief, the exchange profits are now being used to finance the coffee program instead of offsetting expansionary factors from the budget, private credit, etc. The staff believes that the Brazilian authorities wish to overcome their problems, but for the time being political considerations make it impossible to take the steps necessary for achieving monetary stability and exchange reform.

Our judgment is that little can be done at this time outside the exchange system to improve the situation. It would, therefore, be desirable to have some rather firm indication from the Brazilian authorities which we could transmit to the Board indicating that they have intentions of adjusting their exchange system,

particularly the rates applicable to imports, more rapidly than envisaged in June. In addition, it would seem desirable to have a private letter to the Managing Director of the Fund indicating explicitly their intention to abolish the Cr$50.82 rate by October and their willingness to consult with the Fund and agree on a further depreciation of the preferential import rate some time during the last months of the year. This private letter to the Managing Director could also contain a specific commitment to reduce the auctions by 20 per cent beginning in September. We would also prefer to get from the President of the Bank of Brazil a written assurance [illegible], consistent with the assurance of the Minister of Finance that the ceiling on credit to the private sector will be fully implemented.

Whatever may be the outcome of the present discussions, the management will have the duty to report to the Board the departures from the June commitments. The Brazilians should request the Fund to agree to a modification of these commitments just as the Colombians did under their stand-by arrangement. In addition, Brazil has the duty to seek the approval of the Fund for the exchange rate changes already made, as well as those contemplated in the future. Therefore, it is suggested that the Brazilian representatives should be told that management can recommend modifications of the stand-by arrangement only if ~~some~~ of the desiderata set forth above are accepted by them.

To avoid any future misunderstanding, we should make it clear to the Brazilian authorities that any agreement reached as a result of present discussions would not be in substitution for the obligation to consult the Fund and agree with it the terms on which any further purchases may be made toward the end of the year. The consultations on an exchange reform suggested above for the last months of the year could provide the occasion for this agreement also.

If you agree with the above suggestions, we would continue our discussions with the Brazilian representatives in accordance with them.

cc: Deputy Managing Director

Mr. Gutting
Mr. Bernstein
E. Berrios

SECRET **INCOMING MESSAGE** SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25, D.C.

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK 029771

FILING TIME: 4:22PM July 14, 1958

VIA: WU

Number: 122

HAVE EARMARKED FOR YOUR ACCOUNT 2464.093 TROY OUNCES OF FINE GOLD BY ORDER OF BANCO DO BRASIL, S.A.

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Mr. Paranaguá
WHD
SEC

Test number checks

Approved:

Received in Code Room: 6:18PM July 14, 1958

SECRET **INCOMING MESSAGE** SECRET

E. Bernstein

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK 029770

FILING TIME: 4:32PM July 14, 1958

VIA: WU

Number: 123

YOUR NO. 18 TRANSFER EFFECTED

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Mr. Paranagua
WHD
SEC

(Brazil)

Test number checks

Approved:

Received in Code Room: 6:13 PM July 14, 1958

The Managing Director July 14, 1958

Irving S. Friedman and G. A. Costanzo

Brazilian Exchange System

The following are some suggestions on possible changes in the Brazilian exchange system, on the assumption that Brazil wishes to change its coffee program and give more remuneration to coffee producers and exporters and is requesting an increase in assistance from the United States.

1. A change in the rate for coffee and cacao to Cr$70 per US$1, accompanied by an increase in the preferential import rate to Cr$90 per US$1, or higher. This is very close to the original staff proposal. We have the same reasons for suggesting it now as we had last May. It would provide the increase in remuneration for coffee exporters and producers which is being sought by the Brazilian authorities. On the basis of this exchange system, we would also go back to the original coffee program of, in effect, a tax in kind for all coffee not exported or sold domestically.

2. Depreciation of the coffee rate by an amount which would give exporters and producers the same remuneration as contained within the supposed new proposals. (This could be something more than Cr$70 per US$1, but we have not had time to calculate it). With respect to imports, it would still be desirable to have the preferential rate raised to Cr$90 or higher, but as a minimum it would have to be raised by the amount necessary to offset the expansionary impact of a more depreciated rate for coffee. Retention would be the same as under 1. above.

3. On the assumption that the Brazilians give very strong arguments why they cannot change the coffee rate, but must act along the lines suggested of purchasing the excess coffee although at a reduced price, it is suggested that the Fund insist in return on a depreciation of the preferential import rates. It would be best if we could have their agreement to a preferential import rate of Cr$90 or more. The minimum would of course be an increase in import rates equivalent to offsetting the expansionary effect of the coffee program.

Our preference would be for either a return to the original staff proposal as outlined under 1. above or for some other arrangement on coffee, but with an increase in the preferential import rate to Cr$90 or higher.

We have not worked out the arithmetic on the monetary expansion of different suggestions, which we will be doing, but have given you the above as a quick reaction to our discussion today.

We would like to stress that the above is tentative, based on the assumptions that were made at lunch today. We need a clearer idea of the basic facts such as the precise character of the coffee program, the amount of balance of payments deficit that will be financed, the likely auction rates that will prevail, and the expected budgetary situation.

(1) If buy excess coffee at 1/2 price - then monetary expansion = about Cr$15 billion.

(2) If buy excess at full price - then monetary expansion = about Cr$30 billion.

(3) If offset in import rates

for (1) above need about Cr$25 per US$1 ~~xxxxxx~~ increase in preferential rates

for (2) above need about Cr$50 per US$1 increase in preferential rates.

The Managing Director

July 10, 1958

Irving S. Friedman and Paul J. Brand
/s/ /s/

Brazil

You will be interested in the following recent developments in Brazil, garnered from newspapers and still unconfirmed.

1. New rate for coffee

The Brazilian Coffee Institute (IBC) has increased the rate of the variable bonus paid for coffee exports. The net effect is that the new effective export rate for coffee averages about Cr$51.6 per US$1. Under the old system, at present prices the average effective exchange rate would be about Cr$41.4 per US$1. Actually, however, the effective rate in April was somewhat higher, since the price per bag of coffee was higher. Nevertheless, the effective depreciation has seemingly more than offset the approximately 6-7 per cent decline in the price of coffee in New York. This devaluation of the coffee rate is interesting in light of the adamant attitude against depreciation of the coffee rate which the Brazilians took in our last discussions, but it may be due to the decline in the price of coffee which had begun to take place before these new coffee measures were announced.

2. Coffee policies

Discussions are reported to be going on in Brazil about the financing of the coffee surplus for the coming year. The reports are not clear, but they speak of the Brazilian Government reducing the costs of financing excess coffee production "to a maximum of Cr$10 billion". Thus, the Brazilians may be considering a scheme of financing coffee retention quite different -- and more inflationary -- than the one outlined in the last discussions, but the reports are too incomplete for a definitive judgment.

3. Special treatment for sugar

It is reported that special treatment will be allowed for the exportation of the 1958-59 sugar crop through the use of CACEX. The arrangement sounds very much like the "symbolic purchase" operations which CACEX has conducted in the past.

In view of the possible forthcoming discussions with the Brazilian authorities, we are not taking steps to try to obtain official confirmation of these reports, as we might otherwise do.

1. Mr. Gutierrez
2. Mr. Sundelson
3. E. Bernstein

OFFICIAL **OUTGOING MESSAGE** **OFFICIAL**

FOR PREPARING OFFICER
- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: Superintendencia da Moeda e do Credito
Rio de Janeiro, Brasil

No. 8

1. Reference your cable July 4 Fund cable July 9. We have instructed Federal Reserve Bank of New York to transfer $17,250,000 to the Banco do Brasil, Rio de Janeiro, account with themselves value July 14.

2. Please confirm by cable credit of 319,125,000 cruzeiros to the Fund's No. 1 Account value July 14.

3. Letter follows regarding charges.

Code

Test No. INTERFUND

Drafted By WPWalsh/sl

Department Office of the Treasurer

Date July 11, 1958

AUTHORIZATION

Signature

Second Signature When Required

cc: Mr. Paranagua
NHD
TRE
SEC

DISPATCHED JUL 11 1958 BY CODE ROOM

FOR CODE ROOM

Time Received 1105 PM
Time Dispatched 1112 PM
Number of Words 30
Log 21096
Route ALL AMERICA
Operator GB

DO NOT TYPE BELOW THIS LINE

OFFICIAL | OUTGOING MESSAGE | OFFICIAL

FOR PREPARING OFFICER

- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

Code

Drafted By FWalsh/ams

Department Office of the Treasurer

Date July 11, 1958

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM

Time Received 1:05 PM

Time Dispatched 1:10 PM

Number of Words 15

Log 24995

Route WU

Operator GB

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: Federal Reserve Bank of New York
New York, New York

No. 18

Please transfer from our No. 1 Account $17,250,000 to the Banco do Brasil, Rio de Janeiro, account with yourselves value July 14 under cable advice to the Fund.

Test No. INTERFUND

cc: Mr. Paranagua
WHD
TRE
SEC

DISPATCHED
JUL 13 1958
BY
CODE
ROOM

DO NOT TYPE BELOW THIS LINE

Superintendência da Moeda e do Crédito

Rio de Janeiro, July 9, 1958.

DE/DIVIN/Cta.88/58.

Orig. & Encl: TRE
cc of letter: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
ERD
SFC

Mr. Per Jacobsson
Managing Director
International Monetary Fund
19th and H.Streets, N.W.
Washington 25, D.C.
U.S.A.

Dear Sir,

This is to inform you that I have been appointed Executive Director of the Superintendência da Moeda e do Crédito by Decree of July 7, 1958, of His Excellency the President of the Republic.

Accordingly the authority of Dr.José Joaquim Cardozo de Mello Neto to sign on behalf of this Superintendência is no more in force.

Attached please find my authorized specimen signature to sign on behalf of the Superintendência da Moeda e do Crédito in regard to operations effected by same as Fiscal Agency for Brazil or in connection with current business which it will conduct in its capacity of Depository for the International Monetary Fund.

Very truly yours,

José Garrido Torres
Executive Director

Encl.

AM/DFY

S.M.C.S

1. Mr. Bernard
2. Mr. [illegible]

OFFICIAL OUTGOING MESSAGE OFFICIAL

3. E. Bernstein

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

FOR PREPARING OFFICER
- ☐ Night Letter
- ☐ Ordinary
- ☐ xx Code

SPECIAL INSTRUCTIONS

To: Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

No. 7

1. Federal Reserve Bank of New York advises credit $13,250,000 value July 8, and $4,000,000 value July 9 to Fund's No. 1 Account.

2. You are authorized to debit Fund's No. 1 Account cruzeiros 245,125,000, value July 8 and cruzeiros 74,000,000, value July 9. Please cable execution.

3. Reference your cable No. 6. Banco do Brasil's account at Federal Reserve Bank of New York will be credited Monday July 14.

Code & Cipher

Test No.

IMTERFUND

cc: Mr. Paranagua
WHD
TRE
SEC

Drafted By CBFink/sl
Department Office of the Treasurer
Date July 9/58

AUTHORIZATION

Signature

Second Signature When Required

DISPATCHED JUL 9 - 1958 BY CODE ROOM

FOR CODE ROOM
Time Received 5:15 PM
Time Dispatched 6:00 PM
Number of Words 51
Log 24987
Route ALL AMERICA
Operator MN

DO NOT TYPE BELOW THIS LINE

SECRET **INCOMING MESSAGE** SECRET

MW Brand
M[illegible]
E. Bern[illegible]

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK 029711

FILING TIME: 5:29P July 8, 1958

VIA: WU

Number: 120

HAVE CREDITED YOUR NO. 1 ACCOUNT $5,000,000 BY ORDER OF THE FIRST NATIONAL CITY BANK OF NEW YORK, NEW YORK HAVE CREDITED YOUR NO. 1 ACCOUNT $5,750,000 BY ORDER OF THE HANOVER BANK, NEW YORK HAVE CREDITED YOUR NO. 1 ACCOUNT $2,500,000 BY ORDER OF J. P. MORGAN & CO., INC., NEW YORK HAVE RECEIVED FOR YOUR NO. 1 ACCOUNT IN FUNDS NOT AVAILABLE BEFORE JULY 9 $4,000,000 BY ORDER OF THE CHASE MANHATTAN BANK, NEW YORK ALL BY ORDER OF BANCO DO BRASIL, S.A., RIO DE JANEIRO

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRB
cc: Mr. Paranagua
WHD
SEC

Test number checks

Approved:

Received in Code Room: 5:59P July 8, 1958

1. Mr. Bernard
2. [redacted]

SECRET | INCOMING MESSAGE | SECRET

3. E. Bernt

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERFUND

FROM: BANCO DO BRASIL, RIO DE JANEIRO

FILING TIME: 431P JULY 8, 1958

VIA: ALL AMERICA

029710

Number: --

ATTENTION MANAGING DIRECTOR

ORDERED SINCE YESTERDAY DEPOSIT DOLLARS 17,250,000 WITH FEDERAL RESERVE BANK OF NEW YORK FOR YOUR ACCOUNT

BANCO DO BRASIL

Orig: TRE
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
LEG
RES
ERD
SEC

Approved:

Received in Code Room: 4:25 PM July 8, 1958

1. Mr. Bunt
2. M[redacted]
3. E. Beris

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: MANAGING DIRECTOR INTERFUND
J J CARDOZO DE MELLO NETO EXECUTIVE DIRECTOR
FROM: SUPERINTENDENCIA DA MOEDA E DO CREDITO, RIO DE JANEIRO

FILING TIME: 533P JULY 4, 1958

VIA: ALL AMERICA

029669

Number: - 6-

Orig: TRE
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
LEG
RES
ERD
SEC

AS FISCAL AGENCY FOR THE GOVERNMENT OF BRAZIL, WE DESIRE TO PURCHASE FROM THE INTERNATIONAL MONETARY FUND U.S. DOLLARS 17,250,000 IN ACCORDANCE WITH THE TERMS OF ARTICLE V, SECTION 3 AND 4, OF THE FUND AGREEMENT. PLEASE CREDIT THIS AMOUNT TO THE ACCOUNT OF BANCO DO BRASIL, RIO DE JANEIRO MAINTAINED WITH FEDERAL RESERVE BANK OF NEW YORK, NEW YORK.

WE DO HEREBY REPRESENT THAT THIS CURRENCY IS PRESENTLY NEEDED FOR MAKING IN SAID CURRENCY PAYMENTS WHICH ARE CONSISTENT WITH PROVISIONS OF THE FUND AGREEMENT.

THE EQUIVALENT OF THE AMOUNT OF DESIRED CURRENCY IN CRUZEIROS NAMELY 319,125,000 WILL BE PLACED TO THE CREDIT OF YOUR NUMBER ONE ACCOUNT WITH SUPERINTENDENCIA DA MOEDA E DO CREDITO, RIO DE JANEIRO ON THE VALUE DATE TO BE SPECIFIED BY YOU.

WITH REGARD TO THE CHARGES PAYABLE UNDER ARTICLE V, SECTION 8 A OF THE FUND AGREEMENT, WE HAVE INSTRUCTED FEDERAL RESERVE BANK OF NEW YORK, NEW YORK TO EARMARK FOR YOUR GOLD ACCOUNT APPROXIMATELY BUT NOT LESS THAN 2,464.286 FINE OUNCES OF GOLD.

WE FURTHER STATE THAT THIS REQUEST IS MADE IN ACCORDANCE WITH STAND-BY ARRANGEMENT OF JUNE 2 1958

J J CARDOZO DE MELLO NETO
EXECUTIVE DIRECTOR
SUPERINTENDENCIA DA MOEDA E DO CREDITO

In Fund's Cipher
Test number checks:
Approved:

Received in Code Room: 7:30 PM July 4, 1958

1. [illegible]
2. [illegible]
3. E. Bernstein

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: MANAGING DIRECTOR, INTERFUND

FROM: J J CARDOZO DE MELLO NETO, EXECUTIVE DIRECTOR
SUPERINTENDENCIA DA MOEDA E DO CREDITO, RIO DE JANEIRO 029662

FILING TIME: 1855 July 3, 1958

VIA: WU

Number: 5

WE CONFIRM THAT FUND'S NUMBER ONE ACCOUNT WAS CREDITED WITH 693 MILLION

750,000 CRUZEIROS VALUE JUNE 11 1958

J J CARDOZO DE MELLO NETO
EXECUTIVE DIRECTOR
SUPERINTENDENCIA DA MOEDA E DO CREDITO

Orig: TRE
cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

In Fund's cipher
Test number checks
Approved:

Received in Code Room: 7:15 PM July 3, 1958

OFFICIAL | OUTGOING MESSAGE | OFFICIAL

FOR PREPARING OFFICER
- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: His Excellency
Jose Maria Alkmin
Minister of Finance

Ministry of Finance

Rio de Janeiro (Brazil)

According to unofficial sources Brazil has changed effective exchange rate applicable to imports of petroleum equipment and related payments from Cr$70 per U.S. dollar to Cr$58.82 per U.S. dollar. Wish to point out this would be contrary to undertakings of Brazilian Government on exchange policy under recent stand-by arrangement. Also under Fund Articles necessary to obtain Fund approval in advance of any rate change. Please advise soon as possible whether effective import rate referred to has been changed since any such change will have to be submitted forthwith to Executive Board for action.

COCHRAN
Interfund

cc: Mr. Cochran
Mr. Costanzo
Mr. Friedman
Mr. Gold

Drafted By Gold/Costanzo/Friedman:mw
Department LEG, WHD, ERD
Date June 19, 1958

AUTHORIZATION

H MERLE COCHRAN
Signature

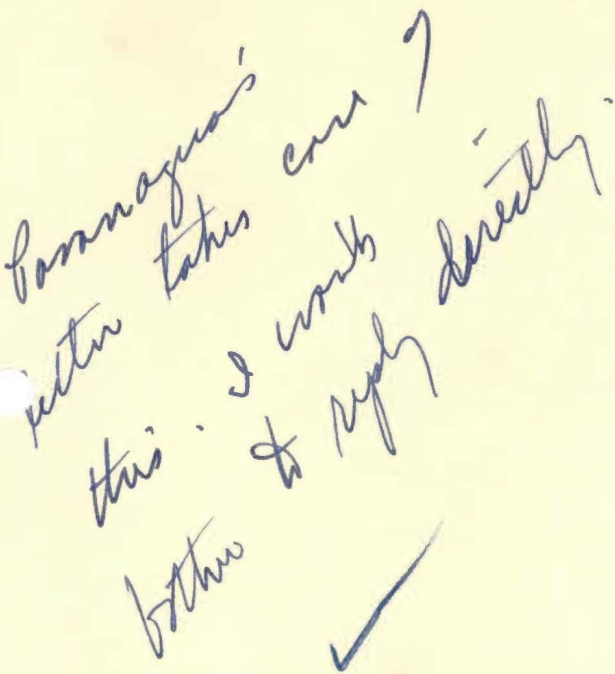
Second Signature When Required

DISPATCHED JUN 19 1958 BY CODE ROOM

FOR CODE ROOM
Time Received 5:35 PM
Time Dispatched 6:40 PM
Number of Words 134
Log 24842
Route ALL AMERICA
Operator MW

DO NOT TYPE BELOW THIS LINE

INTERNATIONAL MONETARY FUND



G. A. Costanzo

June 18, 1958

Mr. William P. Combs, Executive Director
United States Inter-American Council
15 Park Row
New York 38, N. Y.

Dear Mr. Combs:

Your letter of June 6, 1958, to Mr. Del Canto was referred to me as the Director representing Brazil in the International Monetary Fund.

Besides the Fund's Press Release, there is no other document for public use. The mention that the stand-by was agreed in connection with a program of economic and financial stability is the usual announcement of the Fund. Every time a country requests the second credit tranche it is assumed that the country states its program for economic and financial stability.

Sincerely yours,

Octavio Paranaguá
Executive Director

OP/fek

UNITED STATES INTER-AMERICAN COUNCIL

15 PARK ROW • NEW YORK 38, N. Y.

Telephone: BEekman 3-3950 • Cables: "NYUSIAC"

WILLIAM F. COMBS
Executive Director

Chairman
H. W. BALGOOYEN
American & Foreign Power Company Inc.

Senior Vice Chairman
CHARLES A. MEYER
Sears, Roebuck and Co.

Vice Chairmen
R. A. HUMMEL
Lone Star Cement Corporation
HARRY X. KELLY
Mississippi Shipping Co., Inc.
JOHN D. J. MOORE
W. R. Grace & Co.
H. H. WHITMAN
First National City Bank of New York

Treasurer
KENNETH H. CAMPBELL
Chamber of Commerce of the United States

Secretary
VADA HORSCH
National Association of Manufacturers

June 6, 1958

Mr. J. Del Canto
Director
Western Hemisphere Department
International Monetary Fund
1818 "H" Street, N. W.
Washington 25, D. C.

Dear Mr. Del Canto:

Today's brief newspaper announcement of the $37.5 million stand-by credit authorized by the International Monetary Fund for Brazil, mentioned that this credit had been agreed to "in connection with a program of economic and financial stability", but gave no details concerning this program.

Since the economic welfare and stability of our hemisphere neighbors is of basic importance to members of the Inter-American Council, we shall be most appreciative if if you can provide us with further details concerning the "program of economic and financial stability" referred to, and if possible, copy of the agreement itself.

Thank you for your courtesy and cooperation.

Sincerely,

William F. Combs
Executive Director

WFC:amb

~~1. Mr. Castro~~
2. Mrs. Bezerra

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERFUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK

FILING TIME: 443P JUNE 13, 1958

VIA: WESTERN UNION

029471

Number: - 107 -

YOUR NO. 15 TRANSFER EFFECTED

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Mr. Paranagua
WHD
SEC

(Brazil)

Test number checks:

Approved:

5:40 PM June 13, 1958

Received in Code Room:

2. Mr. Beckra

OFFICIAL | OUTGOING MESSAGE | OFFICIAL

FOR PREPARING OFFICER

- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: Federal Reserve Bank of New York
New York, New York

No. 15

Please transfer from our No. 1 Account $46,875 to the Banco do Brasil, Rio de Janeiro, account with yourselves value June 13 under cable advice to the Fund.

Code

Test No.

INTERFUND

CC: Mr. Paranagua
WHD
TRE
SEC

Drafted By WFWalsh/sl
Department Office of the Treasurer
Date June 12/58

AUTHORIZATION

Signature

Second Signature When Required

DISPATCHED JUN 12 1958 CODE ROOM

FOR CODE ROOM

Time Received 5:37 PM
Time Dispatched 5:42 PM
Number of Words 14
Log 24788
Route WU
Operator GB

DO NOT TYPE BELOW THIS LINE

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERFUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK

FILING TIME: 457P JUNE 11, 1958

VIA: WESTERN UNION

029445

Number: - 105 -

REFERENCE YOUR LETTER OF FEBRUARY 28, 1950. HAVE TODAY REDEEMED $35,000,000 OF NON-NEGOTIABLE NON-INTEREST BEARING SECURITIES HELD BY US ON YOUR BEHALF AND CREDITED YOUR NO. 1 ACCOUNT WITH A LIKE AMOUNT

HAVE CREDITED YOUR NO. 1 ACCOUNT $46,875 BY ORDER OF BANCO DO BRASIL, S.A., RIO DE JANEIRO

YOUR NO. 13 TRANSFER EFFECTED

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Southard
WHD
SEC

Mr. Paranagua

Test number checks:

Approved:

Received in Code Room: 9:00 AM June 12, 1958

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: ~~INTERFUND~~

FROM: ~~FEDERAL RESERVE BANK OF NEW YORK~~, NEW YORK

FILING TIME: ~~449PM JUNE 11, 1958~~

VIA: ~~WESTERN UNION~~

029446

Number: ~~104~~

HAVE EARMARKED FOR YOUR ACCOUNT 5,357.617 TROY OUNCES OF FINE GOLD

BY ORDER OF BANCO DO BRASIL, S.A.

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

Test number checks:

Approved:

Received in Code Room: 9:02 AM June 12, 1958

dupl. file

Office Memorandum

TO : Mr. H. Merle Cochran, Acting Managing Director DATE: June 11, 1958

FROM : O. Paranaguá, Executive Director OP.

SUBJECT : Brazil - Exchange System

In addition to my note of today I am sending the following confidential information:

"SUMOC decided to readjust the exchange surcharge of 40 cruzeiros each semester by ten per cent calculated on cruzeiros 58.82 until that surcharge equals cruzeiros 51.18."

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERFUND FOR COSTANZO

FROM: FERNANDO BERGSTEIN ACTING CHIEF ECONOMICS DEPARTMENT
RIO DE JANEIRO

FILING TIME: 1908 June 10, 1958 029436

VIA: A C R

Number: 3

REFERRING TO YOUR CABLE MAY 20 REQUIRED DATA ARE AS FOLLOWS AT APRIL 30, 1958: QUOTE ENTIDADES PARTICULARES DASH USA UNQUOTE 123.7 AND QUOTE SUICA UNQUOTE 6.5 STOP FOR ACL DOLLARS AND BILATERAL CURRENCIES TOTALS ARE RESPECTIVELY 130.7 AND 81.1 STOP CREDITS FOR CURRENT IMPORTS OF COMPLEMENTARY PARTS BY AUTOMOBILE INDUSTRY ARE NOT INCLUDED STOP FOR THE CURRENT YEAR THEY AMOUNT TO 61.3 IN ALL CURRENCIES LATER ON IF DEEMED NECESSARY WE MAY SUPPLY CURRENCY BREAK DOWN STOP FIGURES ABOVE REVISED AS ANNOUNCED IN OUR CABLE OF MAY 28 STOP

FERNANDO BERGSTEIN
ACTING CHIEF ECONOMICS DEPARTMENT
SUPERINTENDENCIA DA MOEDA E DO CREDITO

In Fund's Cipher:

Approved:

Received in Code Room: 1:30 PM June 11, 1958

123042

RECEIVED
JUN 11 1958
Office of the
Deputy Managing
Director

Office Memorandum

TO : Mr. Per Jacobsson, Managing Director

DATE: June 11, 1958

FROM : O. Paranaguá, Executive Director OP.

SUBJECT : Brazil - Exchange System.

I am instructed by the Executive Director of the Superintendency of Money and Credit to communicate to the Fund that in accordance with the letter of the Brazilian Finance Minister, dated May 26th, 1958, the SUMOC is issuing Instruction No. 157, relating to the modifications of the Brazilian exchange system which were to be adopted. The coffee and the cocoa rates remained the same as it was stated in the above mentioned letter.

The products in the cruzeiro 70 rate (Cr$18.36 - official buying rate of the Banco do Brasil and Cr$51.64 Bonus) are the following: Cotton; cotton linters and scraps of textiles in general and spinning and weaving scraps; leaf tobacco; castor seeds; manganese ore; carnauba and ouricuri waxes; sawn pine (including narrow strips and small blocks; yerba mate, ground or processed; and crude leather. For all other products not mentioned above the export rate will be Cr$92 (Cr$18.36 official buying rate and Cr$73.64 Bonus). Bonuses will be uniformly applicable to all monetary areas, thus revoking previous regulations, including Instruction No. 147.

With regard to the preferential import and payment rates the exchange surtax is raised to Cr$40, therefore the rate will be Cr$58.82 (Cr$18.82 official selling rate and Cr$40 surtax) for the following items:

a) the importation of newsprint, paper to print books and maps, books, newspaper and magazines (in accordance with the procedure of Article 50, paragraph 3 of the Tariff Law of August 14, 1957); wheat; and petroleum and petroleum products;

b) the payments for financial commitments of the Federal Government, States, and Municipalities, not connected with imports;

c) the amortization and interests of financed imports already registered with SUMOC.

The rate for the following items will be raised to Cr$70 (Cr$18.82 official selling rate and Cr$51.18 exchange surtax):

d) the importation of fertilizers and insecticides;

e) the importation of equipment, parts and replacements for prospecting and producing crude petroleum;

f) the importation of equipment, parts and replacements for newspaper and publishing enterprises;

Orig: WHD
cc: Mg. Dir.
Dep. Mg. Dir. RES
ERD TRE
LEG SEC

g) the importation of equipment, parts and replacements considered essential for economic development and national security;

h) payments for services connected with prospecting and producing crude petroleum;

i) amortization and interests connected to imports referred to in items e), f), and g) above mentioned.

OFFICIAL **OUTGOING MESSAGE** **OFFICIAL**

FOR PREPARING OFFICER

- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

6/1

Code ~~and cipher~~

Dr ___ By MFWalsh/ams

Department Office of the Treasurer

Date June 9, 1958

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM

Time Received 5:15 PM

Time Dispatched 5:22 PM

Number of Words 28

Log 2479

Route ALL AMERICA

Operator MW

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

No. 6

1. Reference your cable June 3. We have instructed Federal Reserve Bank of New York to transfer $37,500,000 to the Banco do Brasil, Rio de Janeiro, account with themselves value June 11.

2. Please confirm by cable credit of 693,750,000 cruzeiros to the Fund's No. 1 Account value June 11.

3. Letter follows regarding charges.

Test No. INTERFUND

cc: Mr. Paranagua
WHD
SEC

DO NOT TYPE BELOW THIS LINE

OFFICIAL | OUTGOING MESSAGE | OFFICIAL

FOR PREPARING OFFICER

- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

Code

Drafted By WFWelsh/ams

Department Office of the Treasurer

Date June 9, 1958

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM

Time Received 5:15 PM

Time Dispatched 5:20 PM

Number of Words 15

Log 21748

Route WU

Operator MW

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D C

To: Federal Reserve Bank of New York
New York, New York

No. ~~13~~

Please transfer from our No. 1 Account $37,500,000 to the Banco do Brasil, Rio de Janeiro, account with yourselves value June 11 under cable advice to the Fund.

Test No. INTERFUND

DISPATCHED JUN 9 1958

cc: Mr. Paranagua
WHD
SEC

DO NOT TYPE BELOW THIS LINE

JUN 6 1958

Dear Mr. Minister:

The stand-by arrangement between the International Monetary Fund and Brazil provides for a careful follow-up of Brazilian economic developments by the staff of the Fund. For this purpose, the arrangement provides that Brazil and the Fund will remain in close consultation and that Brazil will keep the Fund informed of developments in the exchange, credit, and fiscal situation at intervals requested by the Fund during the duration of the stand-by arrangement. In the meeting of the Executive Board in which the stand-by arrangement with Brazil was approved, the Managing Director of the Fund also undertook to report regularly to the Executive Board on the implementation of Brazil's undertakings as outlined in your letter of May 26, 1958.

In accordance with the foregoing, we would appreciate receiving the following material by weekly cable:

1. Total currency issue at the close of the previous week

2. Posiçao do Tesouro Nacional no Banco do Brasil--saldo liquido

3. Letras do Tesouro--saldo en circulação

4. Total exchange auctioned in previous week:
   (a) convertible currency
   (b) ACL dollar

5. Average agio for U.S. dollar in previous auction

6. Foreign exchange holdings:
   (a) U.S. dollar balances held abroad
   (b) Balance of unutilized lines of credit on U.S. banks
   (c) ACL dollar balances held abroad

In addition to the weekly cable, we would also appreciate a letter as early as possible each month containing the following information with respect to the preceding month:

CENTRAL FILES

CENTRAL FILES

1. Total loans and investments of the Bank of Brazil (end of month data):

   (a) to the Federal Government
   (b) to the states and municipalities
   (c) to the private sector

2. Total loans and investments of the commercial banks (end of month data):

   (a) to the Federal Government
   (b) to the states and municipalities
   (c) to the private sector

3. Liquidity of commercial banks (end of month data):

   (a) Cash on hand (caixa em moeda corrente)
   (b) Legal reserves (encaixe):

      (1) Deposits with SUMOC and Banco do Brasil
      (2) Other

   (c) Deposits:

      (1) Time
      (2) Demand

   (d) Legal reserve ratio (proporção encaixe/ depositos)

4. Total rediscounts and other credits from the monetary authorities to the commercial banks (end of month data)

5. The movement of the "Agios e Bonificações" Account as follows:

   (a) Balance at the beginning of each month
   (b) Gross agios receipts during the month
   (c) Gross payments during the month:

      (1) Bonificaciones
      (2) Coffee financing
      (3) Other

   (d) Balance as of end of month

6. Table prepared by the Contador Geral da República, entitled "Fontes do Deficit de Caixa do Tesouro Nacional e seu Financiamento"

7. Outstanding principal (saldos devedores de principal) on credits for specific projects registered with SUMOC (end of month data):

(a) In convertible currencies
(b) In ACL currencies
(c) In inconvertible currencies

8. General cost of living index

With warmest regards and best wishes for the successful implementation of the program undertaken by Brazil, I am

Sincerely yours,

H. Merle Cochran
Acting Managing Director

His Excellency
José Maria Alkmim
Minister of Finance
Ministry of Finance
Rio de Janeiro, Brazil

loc GACostanzo/EZayas:eb
June 5, 1958

CENTRAL FILES

JG

lsf

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
ERD
LEG
RES
SEC

JUN 5 1958

Sir:

I have pleasure in advising you of the following decision of the Executive Board concerning the recent consultations with your Government under Article XIV, Section 4, of the Fund Articles of Agreement:

"1. The Government of Brazil has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

"2. Inflation has been the root cause of Brazil's current economic difficulties. Although there has been some diminution in the rate of increase in prices in 1957 and early 1958, the rate is still substantial and the monetary and credit expansion continues unabated. In 1956, 1957, and the early months of 1958 the large cash deficits of the Federal Government and their inflationary financing were an aggravating factor in the monetary expansion. For 1958 as a whole, the Government plans to limit the budgetary cash deficit to Cr$20 billion and to offset the inflationary impact of this financing by sterilizing the accruing exchange profits. The Government is also planning steps to restrict private credit expansion as part of its new program. For 1959 the Government intends to balance its budget.

"3. While Brazil's foreign exchange situation improved considerably in 1956 as a whole, a decline in exchange reserves began in the latter months of the year. This deterioration continued through 1957 and into early 1958 and resulted in a considerable decline in Brazil's foreign exchange reserves. In addition to the basic disequilibrium, a particular factor in the decline in reserves was the policy of auctioning amounts of dollar and ACL exchange in excess of availabilities. The Fund considers that Brazil will have to manage its anti-inflationary program in such a way as to strengthen the balance of payments, especially in view of the additional heavy payment commitments facing Brazil in the next few years.

"4. Since the last consultations there has been a simplification in Brazil's multiple exchange system affecting import payments, resulting from the changes introduced in August 1957 in connection with the tariff reform. The recent proposals for changes in Brazil's rates for preferential imports and other payments will result in an effective devaluation of these rates. On the export side, the proposed changes also represent a simplification of the rates and some

(Cleared with Mr. Paranagua, Mr. Costanzo, Mr. Friedman and Mr. Horne)

devaluation. The Fund does not object to Brazil's multiple currency practices, including the changes specified in Brazil's letter of 26th May 1958, on a temporary basis, but urges Brazil, as a first step in implementing its declared intention to introduce with as little delay as possible further exchange measures with a view to attaining a unitary rate, to take early action to unify the various rates for imports and to reduce the multiplicity of rates on the export side at levels which take account of the long-run prospects for the balance of payments. The Fund will remain in consultation with Brazil with respect to these matters.

"5. The Fund notes that Brazil has reduced reliance on bilateral agreements and urges Brazil to continue its efforts in this direction.

"6. In concluding the 1957 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Brazil."

I should like to take this opportunity to express my appreciation of the assistance which your Government has been good enough to afford the Fund during the course of these consultations, and to say that the Fund looks forward to a continuation of this close cooperation.

Very truly yours,

H. Merle Cochran
Acting Managing Director

Dr. J. J. Cardozo de Mello Neto
Diretor Executivo
Superintendencia da Moeda e do Credito
120 Avenida Rio Branco, 9º andar
Rio de Janeiro, Brazil

Model:mdt 6/4/58
EBM/58/21, 6/2/58; SM/58/7 Sup. 2, 6/2/58

Sal WHD. RH.

INCOMING TELEGRAM *Department of State*

38 53

UNCLASSIFIED

Action ARA

Control: 3397
Rec'd: JUNE 5, 1958
1:50 PM

Info RMR

FROM: RIO DE JANEIRO

TO: Secretary of State

NO: 1672, JUNE 5

SP C W L INR P UOP E IRC DCL ICA OCB IA CIA

PRESS THIS MORNING CARRIES STORY THAT KCHDDHRMR# PEIXOTO APPLIED TO EXIMBANK YESTERDAY FOR LOAN $150 MILLION. ALSO CARRIES FOLLOWING PRESS RELEASE OF MINISTRY OF FINANCE: "AT THIS MOMENT WHEN, AS IS ALREADY KNOWN, THE INTERNATIONAL MONETARY FUND HAS ONCE MORE APPROVED THE MONETARY, FOREIGN EXCHANGE, AND FOREIGN TRADE PRACTICES WHICH ARE AT PRESENT BEING FOLLOWED BY BRAZIL, IT BECOMES NECESSARY TO REFUTE A SERIES OF FALSE RUMORS INSTIGATED, AS ALWAYS, BY PERSONS INTERESTED IN UPSETTING LEGITIMATE TRADE. THUS, WITH RESPECT TO FOREIGN EXCHANGE POLICY IN GENERAL, AND IN PARTICULAR WITH RESPECT TO THE TREATMENT OF OUR EXPORTS, THE MINISTER OF FINANCE FORMALLY DECLARES THAT:

A) THE PARITY OF OUR CURRENCY WILL BE MAINTAINED; NO SUGGESTION WAS MADE TO US BY THE IMF FOR ANY ALTERATION OF THAT PARITY;
B) WE SHALL CONTINUE IN EFFECT OUR PRESENT COFFEE POLICY, THE SUCCESS OF WHICH IS DEMONSTRATED BY THE VOLUME OF SHIPMENTS ABROAD DURING THE MONTH OF MAY, A TOTAL OF 1,377,765 BAGS OUR FOREIGN EXCHANGE RECEIPTS ACCORDINGLY RETURN TO NORMALITY. ALSO WITH THE PURPOSE OF ORIENTATING OUR LEGITIMATE INTERESTS PROPERLY, BOTH FOR IMPORTERS AND EXPORTERS AND FOR FOREIGN INVESTORS, IT BECOMES NECESSARY TO ANNOUNCE THAT NO OTHER EXPORT PRODUCT SHALL HAVE ITS FOREIGN EXCHANGE PARTIALLY OR TOTALLY NEGOTIATED IN THE FREE EXCHANGE MARKET EXCEPT FOR PRECIOUS AND SEMIPRECIOUS STONES AS WELL AS BOOKS, MAGAZINES AND NEWSPAPERS, ITEMS WHICH HAVE NEVER BEEN SIGNIFICANT IN OUR EXPORT SCHEDULES SINCE THEY HAVE BEEN EXPORTED ONLY IN NOMINAL AMOUNTS".

BRIGGS

DT

UNCLASSIFIED

UNLESS "UNCLASSIFIED" REPRODUCTION FROM THIS COPY IS PROHIBITED.

INTERNATIONAL MONETARY FUND

June 4, 1958

TO : Mr. Friedman

FROM: G. A. Costanzo

SUBJECT: Transmission to GATT of Papers on Consultation with Brazil

WHD has no objection to the papers relating to the Fund's recent Article XIV consultations with Brazil being transmitted to GATT.

Office Memorandum

TO : Mr. Del Canto

DATE: June 3, 1958

FROM : Irving S. Friedman ISF

SUBJECT : Transmission to GATT of Papers on Consultation with Brazil

Before sending the attached memorandum to Mr. Paranagua, I should appreciate hearing whether, from your point of view, the papers relating to the Fund's recent Article XIV consultation with Brazil are ready to be sent to the GATT and whether you see any objection to their transmission.

Attachment

Mr. Paranagua

Irving S. Friedman

Transmission to GATT of Papers on Consultation with Brazil

I should appreciate hearing from you whether you have any objection to the transmission, to the CONTRACTING PARTIES to the GATT, of the papers relating to the Fund's recent Article XIV consultation with Brazil.

You will recall that, under the arrangement set forth in EBD/56/102, Parts I and II of the consultation papers, together with the Board's decision, are to be made available only for the confidential use of the GATT secretariat, in cases where the CONTRACTING PARTIES are not planning to hold a consultation with a mutual member. The Fund does not presently have any indication that the CONTRACTING PARTIES intend to hold a consultation in the near future with Brazil. Accordingly, it is proposed that Parts I and II of the consultation papers, together with the supplementary information contained in SM/58/7, Supplement 1, be made available to the GATT secretariat on this basis.

With respect to the decision, you will recall that in connection with the CONTRACTING PARTIES' consultation with Brazil last fall, the Executive Board approved the following statement for the guidance of the Fund representatives to the GATT consultation (EBD/57/178 and EBM/57/51):

> "As the CONTRACTING PARTIES are aware, Brazil recently introduced significant changes in its import auction system. These changes are described in the background paper supplied by the Fund for use in connection with this consultation. The Fund is following closely developments under the new arrangements, and the Fund's 1957 consultation with Brazil will be begun soon. It is expected that the results of this consultation will be transmitted to the CONTRACTING PARTIES."

This statement was delivered by the Fund representatives in the course of the GATT consultation, and in accordance with its last sentence, it is now proposed that the recent decision be made available for distribution to the CONTRACTING PARTIES.

RVAnderson:vag
6/3/58

OFFICIAL | **OUTGOING MESSAGE** | OFFICIAL

FOR PREPARING OFFICER

- ☐ Night Letter
- ☒ Ordinary
- ☐ Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

No. 5

Reference your cable No. 2. Stand-by charge not yet received. Please advise arrangement made for payment.

Test No. INTERFUND

cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

Dr By RKroc/ams
Department Office of the Treasurer
Date June 4, 1958

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM

Time Received 12:35 PM
Time Dispatched 12:38 PM
Number of Words 24
Log 24716
Route WU
Operator MW

DISPATCHED JUN 4 - 1958 BY CODE ROOM

DO NOT TYPE BELOW THIS LINE

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

Orig: TRE
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
LEG
RES
ERD
SEC

TO: MANAGING DIRECTOR INTERFUND
J J CARDOZO DE MELLO NETO EXECUTIVE DIRECTOR

FROM: RIO DE JANEIRO

FILING TIME: 1940 JUNE 3 1958

VIA: WESTERN UNION

029353

Number: - 2 -

AS FISCAL AGENCY FOR THE GOVERNMENT OF BRAZIL, WE DESIRE TO PURCHASE FROM THE INTERNATIONAL MONETARY FUND U.S. DOLLARS 37,500,000 IN ACCORDANCE WITH THE TERMS OF ARTICLE V, SECTION 3 AND 4, OF THE FUND AGREEMENT. PLEASE CREDIT THIS AMOUNT TO THE ACCOUNT OF BANCO DO BRASIL, RIO DE JANEIRO MAINTAINED WITH FEDERAL RESERVE BANK OF NEW YORK, NEW YORK.

WE DO HEREBY REPRESENT THAT THIS CURRENCY IS PRESENTLY NEEDED FOR MAKING IN SAID CURRENCY PAYMENTS WHICH ARE CONSISTENT WITH PROVISIONS OF THE FUND AGREEMENT.

THE EQUIVALENT OF THE AMOUNT OF DESIRED CURRENCY IN CRUZEIROS NAMELY 693,750,000 WILL BE PLACED TO THE CREDIT OF YOUR NUMBER ONE ACCOUNT WITH SUPERINTENDENCIA DA MOEDA E DO CREDITO, RIO DE JANEIRO ON THE VALUE DATE TO BE SPECIFIED BY YOU.

WITH REGARD TO THE CHARGES PAYABLE UNDER ARTICLE V, SECTION 8 A OF THE FUND AGREEMENT, WE HAVE INSTRUCTED FEDERAL RESERVE BANK OF NEW YORK, NEW YORK TO EARMARK FOR YOUR GOLD ACCOUNT APPROXIMATELY BUT NOT LESS THAN 5,357.143 FINE OUNCES OF GOLD.

WE FURTHER STATE THAT THIS REQUEST IS MADE IN ACCORDANCE WITH STAND-BY ARRANGEMENT OF JUNE 2 1958

J J CARDOZO DE MELLO NETO
EXECUTIVE DIRECTOR
SUPERINTENDENCIA DA MOEDA E DO CREDITO

In Fund's Cipher
Test number checks:
Approved:

Received in Code Room: 9:00 AM June 4, 1958

June 3, 1958

Gentlemen:

In cable No. 4 of June 2, 1958 the Fund advised you that the Executive Board had approved a stand-by arrangement with Brazil. The text of the agreement is enclosed.

In explanation of the amount of the charge, reference is made to Section II, Paragraph 5(a) of the Executive Board decision No. 270 (53/95) which provides that 1/4 of 1% per annum will be payable in advance for each six months' period. On the basis of $37,500,000, therefore, the charge is $46,875 for the period ending December 2, 1958. The amount is payable in gold or in U. S. dollars in lieu of gold.

The Fund would appreciate advice by cable of the arrangements made for the payment of this charge.

Sincerely yours,

R. Kroc
Assistant Treasurer for Operations

Y. C. Koo
Treasurer

Enclosure

Superintendencia da Moeda e do Credito
120 Avenida Rio Branco,
9º andar
Rio de Janeiro, Brazil

cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

WFWalsh/al - June 3/58

1- Mr. Gutiérrez 19

OFFICIAL **OUTGOING MESSAGE** OFFICIAL

2- Mr. Broadus

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C. 3- Mr. Becerra

FOR PREPARING OFFICER
- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

Code & Cipher

Cleared with Mr. Horne

To: Superintendencia da Moeda e do Credito
Rio de Janeiro, Brasil

No. 4

1. Executive Board today decided as follows:

QUOTE

1. Brazil has requested the Fund to agree to the stand-by arrangement in EBS/58/25 Supplement 3.

2. The Fund agrees to the request made by Brazil, and grants the necessary waiver under Article V, Section 4 of the Articles of Agreement.

UNQUOTE

2. Text of stand-by arrangement follows by air mail.

3. Stand-by charge for six months amounts to $46,875 payable in gold at any of Fund's gold depositories, or in U. S. dollars into Fund's No. 1 Account at Federal Reserve Bank of New York.

Drafted By WFWalsh/sl
Department Office of the Treasurer
Date June 2/58

AUTHORIZATION

Signature

Second Signature When Required

Test No.

INTERFUND

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
TRE
LEG
RES
ERD
SEC

DISPATCHED JUN 2 - 1958 BY CODE ROOM

DO NOT TYPE BELOW THIS LINE

FOR CODE ROOM
Time Received 5:12 PM
Time Dispatched 5:32 PM
Number of Words 74
Log 2470h
Route WU
Operator MW

June 1958

The Brazilian Government under paragraph 5 of its letter of May 26, 1958, annexed to the stand-by arrangement with the Fund, undertook the following with respect to suppliers' credits:

> "With regard to registration with SUMOC of suppliers' credits in convertible and ACL currencies, the Brazilian Government will not exceed the total amount as of December 31, 1957. New authorizations will be limited to the amount of repayments and cancellations of the principal of suppliers' credits and will, moreover, be restricted to highly essential projects and will be granted only in cases where repayment schedules allow for a three year period of grace."

Pursuant to the above, it is our understanding that the registration of suppliers' credits with SUMOC will not be allowed to exceed the level outstanding as of December 31, 1957. Suppliers' credits are understood to include all credits in U.S. and ACL dollars with a duration of eight years or less which are registered under the heading "Financiamentos de projectos especificos" except for credits extended by foreign official institutions. The outstanding principle of such credits amounted to US$263 million as of December 31, 1957.

It is also understood that SUMOC will not permit the registration of any suppliers' credit which calls for any payments in the first three years of such credit and is not for the financing of a highly-essential project.

The Managing Director May 29, 1958

Joseph Gold

Stand-by Arrangements: Protective Clause on Drawings

Provisions similar to the one in paragraph 4 of the proposed Brazilian stand-by arrangement have been incorporated in various stand-by arrangements.

A. Chile

1958 arrangement

Para. 5: "... Chile will have the right, unless the Fund gives Chile prior notice to the contrary, to purchase the currencies of other members ..."

1957 arrangement

Para. 7: "If ... the Fund's holdings ... are increased to the level described in paragraph 6, Chile shall have the right to make further purchases under this arrangement unless the Fund gives Chile prior notice to the contrary ..."

1956 arrangement

Para. 6: "If ... the Fund's holdings ... are increased to the level described in paragraph 5, Chile ... shall have the right, after 30 days, to make further purchases under this arrangement unless the Fund notifies Chile to the contrary ..."

B. Peru

1958 arrangement

Para. 6: "If ... the Fund's holdings ... are increased to the level described in paragraph 5, Peru shall have the right to make further purchases under this arrangement unless the Fund gives Peru prior notice to the contrary ..."

1957, 1956, 1955 arrangements

Para. 7: "If the Fund should indicate that developments had occurred that would no longer justify the belief that the Exchange Stabilization Program could be made effective, Peru would not draw further amounts under the stand-by arrangement before consulting the Fund and securing its consent. Under such

circumstances Peru would, of course, be free to approach the Fund for financial assistance, but without relying upon the stand-by arrangement."

C. Paraguay

1957 arrangement

Para. 6: "If ... the Fund's holdings of Paraguayan guaranies are increased to the level described in paragraph 5, Paraguay shall have the right, after 30 days from the date when this level is reached, to make further purchases under this arrangement unless the Fund notifies Paraguay to the contrary within the said period of 30 days."

B. Bolivia

1957 arrangement

Para. 6: "If ... the Fund's holdings of Bolivian currency are increased to the level described in paragraph 5, Bolivia will have the right, after 30 days from the date when this level is reached, to make further purchases under this arrangement unless the Fund notifies Bolivia to the contrary within the said period of 30 days."

1956 arrangement

Para. 6: "If ... The Fund's holdings of Bolivian currency are increased to the level described in paragraph 5, Bolivia, within the said period, will have the right, after 30 days, to make further purchases under this arrangement unless the Fund notifies Bolivia to the contrary."

Notes

1. Many of the stand-by arrangements referred to had even wider protective provisions because they provided in addition that the member could not draw without the Fund's consent if certain objective economic criteria were not observed. This type of provision has applied both below and above the level of Fund holdings specified in some of the provisions quoted above.

2. The purpose of the provisions quoted above is to give the Fund the authority to stop further drawings without employing the stigma associated with ineligibility. It is thus a protection additional to ineligibility. This is shown by the fact that, in the stand-by arrangements having the provision under discussion, the standard clause giving the member the right to draw without further review except in the case of ineligibility or the general suspension of operations is expressly made subject to the provision under discussion.

3. Except in the earlier Peruvian cases, no definition is adopted of the

circumstances in which the Fund can give the notice. The Fund has a discretion to decide whether to give the notice. Although the clause as to notice is not directly tied to the "in consideration" clause, the Fund would clearly be justified in giving notice if the member made significant departures from the intentions and policies in consideration and for the support of which the stand-by arrangement is entered into.

c.c. Mr. J. Del Canto
Mr. G. A. Costanzo ✓
Mr. I. S. Friedman
Mr. E. P. Hexner

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: COSTANZO - INTERFUND

FROM: ERNANE GALVEAS ACTING CHIEF FOR ECONOMICS DEPARTMENT
RIO DE JANEIRO

FILING TIME: 1755 MAY 28, 1958

VIA: WESTERN UNION

029294

Number: - 1 -

REFERRING TO YOUR CABLE MAY TWENTY WE BEG TO INFORM YOU THAT DUE TO EXISTING RELEVANT INCORRECTIONS WE ARE UNDERTAKING A COMPLETE REVISION ON FOREIGN INVESTMENTS STATISTICS STOP WE EXPECT TO CABLE YOU EXACT FIGURES WITHIN A FEW DAYS

ERNANE GALVEAS
ACTING CHIEF FOR THE ECONOMICS DEPARTMENT
SUPERINTENDENCIA DA MOEDA E DO CREDITO

In Fund's Cipher

Approved:

Received in Code Room: 7:30 PM May 28, 1958

Mr. Guy de Moubray May 28, 1958

Joseph Gold

Stand-by Arrangement - Brazil

I have heard that it is possible that some Executive Directors may want a pause for thought after $37.5 million is drawn. If this were agreed, it could be made effective by adding the following language to the end of paragraph 4 of the stand-by arrangement:

> "; and provided further that when gross purchases by Brazil total the equivalent of $37.5 million, Brazil will consult the Fund and obtain its consent before making any further purchases under this stand-by arrangement."

An alternative formulation would be as follows:

> "; and provided further that when gross purchases by Brazil total the equivalent of $37.5 million, Brazil will consult the Fund and agree with it the terms on which further purchases may be made under this stand-by arrangement."

The Fund would have the same scope for action under either formulation. There is, however, a difference in emphasis. In the first formula, the emphasis is on getting consent for each subsequent drawing; in the second it is on agreement for several or all subsequent drawings. However, this is a matter of emphasis only: under the first formula the Fund could consent to more than one drawing, and under the second to no more than one drawing if the Fund were so disposed.

No other changes in the stand-by arrangement would be needed to carry out the proposal referred to.

CC: Mr. Del Canto
Mr. Costanzo
Mr. Friedman
Mr. Hemmer

May 28, 1958

Mr. Guy de Moubray

Irving S. Friedman

Subject: Brazil — Consultations and Stand-by Arrangements

I am attaching the draft of a closing statement on Brazil, as we discussed yesterday. It has been agreed with Mr. Gold.

cc: Mr. Gold
Mr. Del Canto
Mr. Costanzo

Discussions on Brazil — Executive Board Meeting June 2, 1958

Draft Closing Statement by Managing Director

Now that we have taken our decisions today on Brazil, I would like to say that we plan to follow the situation very closely and stay in constant contact with the Brazilian authorities. We will report to the Board from time to time on the developments in Brazil, since I am sure that you will all be greatly interested in how the situation is developing in this very important country.

Mr. Guy de Moubray

Joseph Gold

Subject: Brazil - Consultations and Stand-by Arrangement

I attach drafts of two introductory statements by the Managing Director. The first is on the consultations report and the second on the stand-by arrangement.

We think that, in addition, there should be a concluding statement on the need to follow the situation closely and report regularly to the Board. We will be sending you a draft statement of this kind very shortly.

May 27, 1958

cc: Mr. Del Canto ✓
Mr. Friedman
Mr. Costanzo

I

Draft Statement by Managing Director on Consultations

On January 22, 1958, the staff circulated the Article XIV Consultations report on Brazil (SM/58/7) containing recommendations based on the information available at that time. Since then we have had further talks with Brazil, including a visit by staff members to Brazil and visits to Washington of representatives of Brazil and, of course, discussions with the Executive Director for Brazil. These recent negotiations have been in connection with the request for a stand-by arrangement which is the next item on the Agenda. We have taken advantage of the information and exchange of views during these discussions to bring our consultation paper up to date and to submit a new set of recommendations. A supplementary paper was accordingly submitted to you last week. As has been customary in the past, I suggest that the Board discuss and conclude the Article XIV consultations before considering the matter of the request for a stand-by arrangement.

May 27, 1958

II

Draft Statement by Managing Director on Stand-by Arrangement

The next item on today's agenda is the request by Brazil for a stand-by arrangement for one year authorising Brazil to draw up to the level of 150 per cent of quota. The Brazilian authorities have transmitted a letter to the Fund setting out their policies and intentions. The supplementary consultations report and the staff memorandum on the stand-by arrangement have presented for your consideration what is, I believe, a balanced and forthright evaluation of those policies and intentions. It is impossible to say at this stage whether Brazil will in fact attain a more stable domestic and external situation in the near future. Much will depend on the vigor and speed with which the authorities give effect to the measures they have described. In connection with the analysis and draft decision before you, I have had the combination of two considerations in mind: first, Brazil is facing an urgent payments crisis and will face major difficulties if financial assistance is not forthcoming. Secondly, if Brazil does apply with vigor the policies and intentions that it has communicated to the Fund, Brazil can achieve the first stage in the rehabilitation of its domestic economy and external situation.

May 27, 1958

hle

Brazil -- Article XIV Consultations

Draft Opening Statement by Managing Director

On January 22, 1958, the staff circulated the Article XIV Consultations report on Brazil (SM/58/7) containing recommendations based on the information available at that time. Since then we have had further talks with Brazil, including a visit by staff members to Brazil and visits to Washington of representatives of Brazil and, of course, discussions with the Executive Director for Brazil. These recent negotiations have been in connection with the request for a stand-by arrangement which is the next item on the Agenda. We have taken advantage of the information and exchange of views during these discussions to bring our consultation paper up to date and to submit a new set of recommendations. A supplementary paper was accordingly submitted to you last week. As has been customary in the past, I suggest that the Board discuss and conclude the Article XIV consultations before considering the matter of the request for a stand-by arrangement.

May 27, 1958

May 27, 1958

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122616 18

Office Memorandum

TO : Mr. Per Jacobsson, Managing Director DATE: May 27, 1958

FROM : O. Paranaguá, Executive Director

SUBJECT : Request for Stand-by Arrangement - Brazil

I have the honor to inform you that the Brazilian Government has instructed me to request from the International Monetary Fund a stand-by agreement of one-year validity and 25% of the Brazilian quota.

I would be grateful if you would submit the aforesaid request to the Executive Board at an early meeting.

Orig: WHD
cc: Mg. Dir.
Dep. Mg. Dir.
TRE
LEG
RES
ERD
SEC

MAY 27 1958
10.40 a.M.

122616

Office Memorandum

TO Mr. Per Jacobsson, Managing Director DATE May 27, 1958

FROM O. Paranaguá, Executive Director

SUBJECT Request for Stand-by Arrangement - Brazil

I have the honor to inform you that the Brazilian Government has instructed me to request from the International Monetary Fund a stand-by agreement of one-year validity and 25% of the Brazilian quota.

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Orig: WHD
cc: Mg. Dir.
Dep. Mg. Dir.
TRE
LEG
RES
ERD
SEC

10.40 a.m.

MAY 27 11 12 AM 1958
INTERNATIONAL MONETARY FUND

5/26/58

Confidential

Mr. Brazil

Dear Mr. Jacobsson:

Currently Brazil is suffering from severe balance of payments difficulties. International reserves are at present low and lines of credit with U.S. banks are virtually exhausted. The recent deterioration has been associated with speculation in the coffee market stimulated by the potential emergence of a large excess supply. However, the problems derive more fundamentally from a sustained credit expansion based on heavy fiscal imbalance. To cope with this situation, the Government of Brazil plans to bring the internal economy into balance by appropriate budget and credit measures and to take various exchange measures so as to limit the deficit in Brazil's external accounts in 1958 and to bring these accounts into balance in 1959. This letter sets forth the policies the Brazilian Government is carrying out and will continue to carry out.

2. To carry out this program, in view of the present exchange situation, Brazil needs the assurance of financial support from the Fund in addition to the amounts to be obtained from other sources. The Government of Brazil, therefore, requests through us a stand-by arrangement with the Fund for the period of one year. Brazil would like to have the right to purchase the currencies of other members from the Fund in exchange for its own currency so long as such purchases do not bring the Fund's holdings of Brazilian currency above their present level increased by the equivalent in Brazilian cruzeiros of US$37.5 million.

3. As a first step in bringing Brazil's external accounts into balance in 1959, Brazil intends to limit its payments deficit in "convertible" and ACL currencies in 1958 to $200 million, including repurchase obligations to the Fund. To attain this result instructions have been issued to limit payments for preferential imports and capital service in these currencies strictly to the amounts specified in the Brazilian exchange budget for 1958, and the amounts of foreign currency sold in the exchange auctions for U.S. dollars and ACL dollars have been cut off by 20 per cent and this level will not be increased. Should the fiscal, credit and other exchange measures mentioned in this letter reduce import demand, causing a fall in the dollar agio for the general import category, Brazilian authorities will reduce the amounts of foreign currency sold in the auctions. The same principle applies to ACL dollar auctions, and this policy will be followed until the lines of credit with the U.S. banks are substantially restored.

4. As a second important step in attaining equilibrium in 1959, the Government of Brazil proposes to simplify Brazil's exchange system for exports. It being highly inconvenient to embark now on any modification of the present coffee status, this will be maintained. The cocoa export rate will remain the same as the average one for coffee, on the basis of Cr$43 per dollar. The remaining products will be grouped into two categories which will receive respectively Cr$70 and Cr$92 per dollar, having in mind maximising stimuli for exports without inflationary reflexes in the case of those commodities of large internal consumption which now enjoy very favorable international prices. With regard to the cruzeiro 70 rate it should be stressed that it will be applied to a limited number of primary products in a temporary character and will represent a step in the shifting of those products to the cruzeiro 92 rate category, which will include the majority of exports, including also manufactured products. Products in the cruzeiro 70 category have represented one quarter to one third of total value of Brazilian exports other than coffee and cocoa. Brazilian Government will forthwith eliminate the procedure known as symbolic purchases and sales.

5. The Brazilian Government will periodically readjust the preferential import rates, 10 per cent each semester, in order to reduce the differential existing between these rates and the rates for imports of the general category. A readjustment to cruzeiros 58.82 per dollar will be readily made of the preferential import rates for petroleum and its products, wheat and newsprint (in accordance with Article 50, paragraph 3 of the Tariff Law of August 14, 1957), and the preferential rate for the other products will be raised to cruzeiros 70 per dollar. The preferential exchange rate for payments referred to in Article 51 of the Tariff Law will be readjusted to cruzeiros 58.82 per dollar. With regard to registration with SUMOC of suppliers' credits in convertible and ACL currencies, the Brazilian Government will not exceed the total amount as of December 31st, 1957. New authorizations will, moreover, be restricted to highly essential projects and will be granted only in cases where repayment schedules allow for a three year period of grace.

6. In addition to the exchange measures described above, the Government intends to introduce with as little delay as possible further exchange measures with a view to attaining a unitary rate and will remain in close consultation with the Fund for this purpose.

7. The exchange measures outlined above are expected to yield substantial profits. In order to insure the efficacy of the credit and fiscal measures outlined below, the gross agio receipts minus payments to exporters under the export arrangements described above will be sterilized (except for the financing of any stockpiling in conformity with the coffee policy for the next crop).

8. To bring the internal economy into balance and thereby reduce pressure on the balance of payments, the Government of Brazil is adopting new measures in the fields of credit, fiscal and coffee policy. With regard to the last, the most serious financial problem facing Brazil results from the large

potential surplus of coffee for 1958-59. Exportable production of coffee in Brazil is estimated as reaching 29 million bags; it is intended, however, to limit exports to 15 million bags. The Government has decided not to bear the whole burden of buying or financing this potential surplus, in order to assure that its anti-inflationary program will not be jeopardized.

9. The producers will have to allow the internal prices to go lower, so an increase in internal consumption will be promoted; what will not be sold internally, will be held by the Brazilian Coffee Institute, at its expense, but without buying it. In case the target of 15 million bags to be exported is not reached, the Government will buy the difference.

10. The fiscal position of the Government is second only to the coffee situation as a problem facing Brazil. Based on existing authorizations and obligations, a cash deficit of Cr$45 billion was estimated for 1958. Measures are being taken so the cash deficit will not exceed Cr$20 billion. Expenditures totaling Cr$17 billion have been cut from the original budget of Cr$140 billion; besides that some authorizations transferred from 1957 will not be utilized, and new expenditures avoided, so extra-budgetary expenditures will not exceed Cr$12 billion. Thus, total cash expenditures will be held to Cr$135 billion, while revenues are currently estimated at Cr$115 billion. In the event that revenues fall short of this estimate or if new budget authorizations have to be made, the Government will make further economies against existing authorizations or obligations as required to limit the cash deficit in 1958 to Cr$20 billion. Accordingly, the Government will limit to Cr$20 billion its borrowing from all sources. For 1959, the Government proposes to attain fiscal balance. To attain this goal the Government will submit to Congress a budget for 1959 with expenditures and revenues balanced at Cr$130 billion. Likewise in 1959, in the event that revenues fall short of this estimate or if new budget authorizations need to be made, the Government will make further economies against existing authorizations or obligations as required to achieve a true balance in the budget.

11. With regard to credit policy, the Brazilian Government has taken the following measures:

(1) Bank of Brazil credit to the private non-banking sector is subject to a graduated ceiling so that by the end of 1958 these credits will be only 5 per cent above the end of 1957 level.

(2) Bank of Brazil credit to states and municipalities will be limited to the level outstanding at the end of 1957.

(3) The level of Bank of Brazil rediscounts and other credits to commercial banks shall not exceed as of the end of each month in 1958 the level outstanding as of the end of the corresponding month of 1957.

(4) The central bank rediscount rate has been increased from the previous 6 per cent to 8 and 10 per cent, depending on the type of paper presented for rediscount.

(5) A bill has already been sent to Congress for the purpose of raising the maximum legal reserves to 12 and 24 per cent for time and demand deposits, respectively--the present legal maxima are 6 and 14 per cent. Upon approval of the new legislation, the Government will increase bank reserve requirements to the legal maxima and require commercial banks to deposit 50 per cent of the current increment in deposits to legal reserves until the new reserve requirements are satisfied.

(6) Should currency issue exceed Cr$102 billion (5 per cent increase over December 1957) at any time in the second half of 1958, the necessity of taking supplementary measures to the above will be considered.

12. If it appears likely at any time that any of the limits referred to in the previous paragraphs will be exceeded, the Government will take the necessary measures to ensure that the limits are observed. To assist the Government in implementing the program, the Government has instructed the Executive Director of the Superintendency of Money and Credit to report monthly to the Council of the Superintendency of Money and Credit developments relating to the limits.

We will provide the Fund with all the data and information it needs to appreciate Brazil's economic position and future progress. We will also be glad to receive visits from Fund officials to review our situation at such times as you may deem appropriate.

Sincerely yours,

Mr. Del Canto

INTERNATIONAL MONETARY FUND

May 26, 1958

TO : The Managing Director

FROM: G. A. Costanzo

SUBJECT: Brazil

1. Attached are the draft letter and stand-by arrangement for Brazil, amended in accordance with your instructions.

2. It is recommended that Brazil be requested to announce the coffee retention plan for 1958-59 prior to submission of the proposed stand-by arrangement to the Executive Board for approval.

May 26, 1958

Dear Mr. Jacobsen:

Currently Brazil is suffering from severe balance of payments difficulties. International reserves are at present low and lines of credit with U.S. banks are virtually exhausted. The recent deterioration has been associated with speculation in the coffee market stimulated by the potential emergence of a large excess supply. However, the problems derive more fundamentally from a sustained credit expansion based on heavy fiscal imbalance. To cope with this situation, the Government of Brazil plans to bring the internal economy into balance by appropriate budget and credit measures and to take various exchange measures so as to limit the deficit in Brazil's external accounts in 1958 and to bring these accounts into balance in 1959. This letter sets forth the policies the Brazilian Government is carrying out and will continue to carry out.

2. To carry out this program, in view of the present exchange situation, Brazil needs the assurance of financial support from the Fund in addition to the amounts to be obtained from other sources. The Government of Brazil, therefore, requests through us a stand-by arrangement with the Fund for the period of one year. Brazil would like to have the right to purchase the currencies of other members from the Fund in exchange for its own currency so long as such purchases do not bring the Fund's holding of Brazilian currency above their present level increased by the equivalent in Brazilian cruzeiros of US$37.5 million.

3. As a first step in bringing Brazil's external accounts into balance in 1959, Brazil intends to limit its payments deficit in "convertible" and ACL currencies in 1958 to $200 million, including repurchase obligations

to the Fund. To attain this result instructions have been issued to limit payments for preferential imports and capital service in these currencies strictly to the amounts specified in the Brazilian exchange budget for 1958 and to reduce gradually the amounts for auction of U.S. and ACL dollars. Starting in June 1958, the amounts of U.S. dollars auctioned will be reduced from the current weekly level of $4 million by $250,000 each month until a level of $2.5 million per week is reached in November. Should the fiscal, credit and other exchange measures mentioned in this letter reduce import demand, amounts auctioned will be reduced so as to maintain a minimum dollar agio for the general import category of Cr$120 per U.S. dollar. This policy will be followed until Brazil restores its lines of credit with the New York banks. Auctions of ACL currencies will be correspondingly reduced from their current weekly level of ACL$3.2 million by ACL$100,000 each month starting in June until a level of ACL$2.6 million per week is reached in November.

4. As a second important step in attaining equilibrium in 1959, the Government of Brazil proposes to simplify Brazil's exchange system for exports. It being highly inconvenient to embark now on any modification of the present coffee status, this will be maintained. The cocoa export rate will remain the same as the average one for coffee, on the basis of Cr$43 per U.S. dollar. All other exports will be grouped in two categories and will receive effective exchange rates of Cr$70 and Cr$92 per U.S. dollar. Brazil is eliminating the procedure known as symbolic purchases and sales.

5. The preferential import rate will be readjusted so as to reduce and eventually eliminate the differential now existing between it and the general import category. As a first step, the Government proposes to raise immediately the preferential rate to Cr$58.82 and to limit the

application of this rate solely to commodities specified in Article 50, paragraph 1, sub-paragraphs (a) and (c), of the Customs Tariff Reform Law of August 14, 1957. Commodities specified in Article 50, paragraph 1, sub-paragraphs (e), (d), and (e) will be subject to an effective exchange rate of Cr$70. Financial payments referred to in Article 51, paragraph 1 will also be effected at an exchange rate of Cr$58.82 except for payments specified in paragraph III (e) of this Article which will continue to be effected at a rate not less than that for general category imports. The Cr$58.82 rate will be automatically increased each six months by ten per cent so that within a year all preferential imports will be subject to an effective exchange rate of at least Cr$70. The Government moreover intends to proceed with as little delay as possible to a comprehensive exchange reform with a view to attaining a unitary rate and will remain in close consultation with the Fund for this purpose.

6. To limit the burden of debt payments on Brazil's payments position, the Government has instructed SUMOC to stop the registration of new medium-term foreign credits (i.e., credits for a period of seven years or less). These instructions require the aggregate level of outstanding medium-term credits registered with SUMOC, exclusive of automobile one-year credits, to be reduced to $350 million for principal in all currencies before any new commitments are accepted. Thereafter, new registrations will be limited to actual repayments of the principal of medium-term credits registered with SUMOC.

7. The exchange measures outlined above are expected to yield substantial profits. In order to insure the efficacy of the credit and fiscal measures outlined below, the gross agio receipts minus payments to exporters under the export arrangements described above will be sterilized (except for the financing of any stockpiling in conformity with the coffee policy

for the next crop). Brazil intends to deposit in a special blocked sub-account of the agios account the local currency counterpart of any foreign financial assistance, including all drawings on the International Monetary Fund, received during 1958 in connection with this stabilization plan. The counterpart to be so deposited will be calculated on the basis of the average effective dollar rate for general category imports in the week preceding the actual receipt of this foreign assistance.

8. To bring the internal economy into balance and thereby reduce pressure on the balance of payments, the Government of Brazil is adopting new measures in the fields of credit, fiscal and coffee policy. With regard to the last, the most serious financial problem facing Brazil results from the large potential surplus of coffee for 1958-59. Exportable production of coffee in Brazil is estimated as reaching 23 million bags; it is intended, however, to limit exports to 15 million bags. The Government has decided not to bear the whole burden of buying or financing this potential surplus, in order to assure that its anti-inflationary program will not be jeopardized.

9. The producers will have to allow the internal prices for coffee to go lower, so an increase in internal consumption will be promoted; what will not be sold internally, will be held by the Brazilian Coffee Institute, at its expense, but without buying it. In case the target of 15 million bags to be exported is not reached, the Government will buy the difference. In any event, borrowing from the Bank of Brazil or the use of exchange agios for the financing of coffee retention will not exceed Cr$6 billion.

10. The fiscal position of the Government is second only to the coffee situation as a problem facing Brazil. Based on existing authorizations and obligations, a cash deficit of Cr$45 billion was estimated for 1958. The Government of Brazil, however, has adopted an economy program to limit this deficit to Cr$20 billion. The reduction in the budgetary cash deficit to Cr$20 billion will be achieved by cutting Cr$15 billion of expenditures from the original budget of Cr$140 billion, by postponing Cr$13 billion of cash expenditures, and by limiting extra-budgetary expenditures to Cr$23 billion. Cash expenditures, thus, will be held to Cr$135 billion while revenues are currently estimated at Cr$115 billion. In the event that revenues fall short of this estimate or because of special circumstances new budgetary authorizations have to be requested, the Government will make further expenditure cuts against existing authorizations or obligations to limit the cash deficit in 1958 to Cr$20 billion. Accordingly, the Government will limit its borrowing from all sources in 1958 to Cr$20 billion. This is a considerable reduction from 1957 when the Government's indebtedness increased by Cr$39 billion. For 1959, the Government proposes to attain fiscal balance. To attain this goal the Government will submit to Congress a budget for 1959 with expenditures and revenues balanced at Cr$130 billion. If revenues fail to reach the budgeted level, the Government will cut expenditures to the extent necessary to ensure budgetary equilibrium in 1959.

11. With regard to credit policy, the Brazilian Government has taken the following measures:

(1) Bank of Brazil credit to the private nonbanking sector is subject to a graduated ceiling so that by the end of 1958 these credits will be only 5 per cent above the end of 1957 level.

(2) Bank of Brazil credit to states and municipalities will be limited to the level outstanding at the end of 1957.

(3) The level of Bank of Brazil rediscounts and other credits to commercial banks shall not exceed as of the end of each month in 1958 the level outstanding as of the end of the corresponding month of 1957.

(4) The central bank rediscount rate has been increased from the previous 6 per cent to 8 and 10 per cent, depending on the type of paper presented for rediscount.

(5) A bill has already been sent to Congress for the purpose of raising the maximum legal reserves to 12 and 24 per cent for time and demand deposits, respectively--the present legal maxima are 6 and 14 per cent. Upon approval of the new legislation, the Government will increase bank reserve requirements to the legal maxima and require commercial banks to deposit 50 per cent of the current increment in deposits to legal reserves until the new reserve requirements are satisfied.

(6) Should currency issue exceed Cr$102 billion (5 per cent increase over December 1957) at any time in the second half of 1958, the necessity of taking supplementary measures to the above will be considered.

12. If between May ___ and December 31, 1958, the limits described in this letter on the cash deficit of the Government and borrowing from the banking system, Bank of Brazil credit to the private nonbanking sector and to states and municipalities, Bank of Brazil rediscounts and other credits to commercial banks, currency issue, exchange sales in the auction markets, use

of agio accounts, or if between July 1, 1958 and June 30, 1959 the limit on purchases of coffee by the Coffee Institute are exceeded, Brazil will consult with the Fund and agree with it on the terms on which further drawings may be made. Brazil will consult the Fund and reach agreement before December 31, 1958, on limits for 1959 for the items referred to in the preceding sentence, it being understood as stated above that the 1959 budget will be in balance. The limits thus agreed for 1959 will be substituted for the former limits for the purposes of the foregoing assurance and the stand-by arrangement on and after January 1, 1959.

13. If it appears likely at any time that any of the limits referred to in the previous paragraph will be exceeded, the Government will take the necessary measures to ensure that the limits are observed. To assist the Government in implementing the program, the Government has instructed the Executive Director of the Superintendency of Money and Credit to report monthly to the Council of the Superintendency of Money and Credit developments relating to the limits.

14. We will provide the Fund with all the data and information it needs to appreciate Brasil's economic position and future progress. We will also be glad to have visits from Fund officials to review our situation at such times as you may deem appropriate.

Sincerely yours,

Dr. Jose Maria Alkmim
Minister of Finance

Dr. Sebastiao Paes de Almeida
President of the Bank of Brasil

Dr. J. J. Cardoso de Mello Neto
Executive Director of the
Superintendency of Money and Credit

Brazil: Draft Stand-by Arrangement

1. Annexed hereto is a letter dated from the Minister of Finance, President of the Bank of Brazil, and Executive Director of the Superintendency of Money and Credit of Brazil which sets forth the policies and intentions which the authorities of Brazil will pursue.

2. In consideration of the policies and intentions set forth in the annexed letter and the need for exchange stabilization funds for the successful implementation of the stabilization program, the International Monetary Fund agrees to a stand-by arrangement for the support of these policies and intentions.

3. Brazil and the Fund will remain in close consultation during the period the stand-by arrangement is in effect. This consultation may take the form of correspondence and visits of officials of the Fund to Brazil or of representatives of Brazil to Washington. In addition, Brazil will keep the Fund informed of developments in the exchange, credit and fiscal situation through reports at intervals or dates requested by the Fund during the period the stand-by arrangement is in effect.

4. For a period of one year from , Brazil will have the right, unless the Fund gives Brazil notice to the contrary, to purchase the currencies of other members from the Fund in exchange for its own currency, so long as such purchases do not bring the Fund's holdings of Brazilian cruzeiros above their present level, which is 125 per cent of quota, increased by the equivalent in Brazilian cruzeiros of 37.5 million U.S. dollars, provided that the amounts Brazil may purchase under this paragraph 4 shall not be increased by reason of any purchases of Brazilian cruzeiros by other members.

5. Brazil will pay charges for this stand-by arrangement in accordance with the decision of the Fund of December 23, 1953.

6. Subject to paragraph 12 in the annexed letter, Brazil will have the right to engage in the transactions covered by this stand-by arrangement without further review by the Fund. This right can be suspended only with respect to requests received by the Fund after: (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions either generally under Article XVI, Section 1(a)(ii), or in order to consider a proposal made by an Executive Director or the Managing Director formally to suppress or limit the eligibility of Brazil.

7. Three years after each purchase of exchange by Brazil under this arrangement, Brazil shall repurchase an equivalent amount of cruzeiros from the Fund; provided that if the cruzeiros held by the Fund as a result of transactions under this arrangement are reduced by repurchases under Article V, Section 7, or otherwise, such reductions shall be credited against the earliest amounts that become payable under this paragraph 7. Repurchases shall be made in gold or convertible currencies acceptable to the Fund.

8. The rate of exchange at which Brazil will purchase currencies from the Fund in exchange for cruzeiros and at which the Fund will return cruzeiros in repurchase operations and make all other computations involving Brazilian cruzeiros will be such rate as the Fund may determine from time to time under Article IV, Section 8, of the Fund agreement.

Office Memorandum

TO : Mr. C. David Finch DATE: May 23, 1958

FROM : E. Zayas

SUBJECT : Brazil: A Brazilian View of the Fund's Role in the Current Negotiations

You may be interested in the following summary of an article on the role of the Fund in the current Brazilian efforts to obtain financial assistance abroad, which appeared in a Brazilian publication, Boletim Cambial on May 19, 1958.

The past week ended with the cruzeiro reaching its lowest level in the free exchange market, and it is felt that there are growing weakness and indecision in the Government to take effective measures to check this fall in the cruzeiro. The increase of currency in circulation, the budgetary deficit, and the rise in the cost of living index are some of the factors that show deterioration of the Brazilian economy in the first four months of 1958.

In the next two weeks the Government has to establish the policy and measures for the financing and marketing of the coming 1958-59 coffee crop. This will be an opportune time for taking measures of the highest importance. Every day signs appear of the difficulties confronting the country in obtaining financial assistance from public and private entities in the United States. All or any negotiation in this regard depends on the pronouncement of the IMF, and this, it appears, is the Waterloo of the financial policy of the Brazilian Government. The point of view of the Fund will be accepted by the other entities. We know that the Fund does not hid its pessimism regarding the developments in Brazil to the point of suggesting measures that put the Brazilian authorities in difficult positions.

The business world in Rio de Janeiro has never felt such anguish as in the last few days as uncertainty surrounds most businesses, especially those engaged in traditional lines of trade.

The Managing Director

May 22, 1958

Irving S. Friedman and G. A. Costanzo

Brazil — Stand-by Arrangement

1. Export rates. The staff believes that it would be desirable to unify the Brazil export rates other than those for coffee and cacao. It is essential for Brazil to have an exchange system which encourages the diversification of exports, particularly at a time when the longer-run outlook for coffee is unfavorable. Furthermore, the maintenance of three export rates would still give rise to the kinds of complaints and difficulties with other countries which the Fund has had in the past as a result of the complex system of export rates. Reasonable export rates would encourage the expansion of such commodities as cotton, sugar and minerals. From the monetary point of view, the impact of eliminating the Cr$70 rate would be to subtract about Cr$2.75 billion from the contractionary effect of the exchange system, assuming that the Brazilians intend to keep 25 per cent of other exports in the Cr$70 category.

2. Import rates. The staff appreciates the difficulties confronting the Brazilian authorities in changing the preferential import rates. It feels, however, that the depreciation of the preferential import rate is essential if Brazil is to overcome repeated balance of payments crises and to begin the difficult process of eliminating the distortions in its production and price-and-cost structure. This would not be accomplished by having a Cr$58.82 rate for newsprint, wheat, petroleum and petroleum products and a Cr$70 rate for other preferential imports and services. Our feeling is that Brazil's best interests would be served by insisting on a minimum of Cr$70 for newsprint, wheat, petroleum and petroleum products and Cr$80 for all others except capital goods and financial payments, with a definite commitment to increase both of these rates by 5 points per quarter until the preference is eliminated. Capital goods imports should be effected at the rate for general category imports and financial payments at the free market rate. It is felt that the elimination of capital goods imports and financial payments from the preferential list would not create the same type of problems as would arise from the shifting of essential items such as wheat and petroleum.

Brazil simply cannot afford import payments at the proposed rates both from the monetary and balance of payments viewpoints. The latest Brazilian proposals are likely to mean pressure either to introduce quantitative restrictions for preferential imports with resulting increases in prices or increased pressure on the auction system as exchange availabilities are reduced, with a strong likelihood that the auction system will become unworkable. Moreover, it perpetuates false accounting of the actual cost of government imports and other expenditures.

We would like to emphasize that our judgment on the exchange system is not based only on its monetary impact. Indeed, as long as Brazil can maintain the rate for coffee and cacao of Cr$45, it is likely that any exchange

system will be disinflationary in its effect. (We are not reopening, for obvious reasons, the questions of how long the Cr$45 rate can be maintained or what would be the implications for the need for additional State coffee purchases if the Cr$45 rate is maintained.) With the rising debt service and decline in export proceeds, in addition to the already existing deficit, the measures that will be required should lead to a contraction in the monetary supply rather than a stabilization at its current level.

SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK 029240

FILING TIME: May 22, 1958

VIA: WESTERN UNION

Number: 92

HAVE EARMARKED FOR YOUR ACCOUNT 5,225.003 TROY OUNCES OF FINE GOLD

BY ORDER OF BANCO DO BRASIL, S.A.

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

Test number checks:

Approved:

Received in Code Room: 6:20 PM May 22, 1958

The Managing Director

May 21, 1958

Jorge Del Canto and Irving S. Friedman

Brasil—Exchange System

1. Today's Journal of Commerce reports that the Minister of Finance has announced that he has asked that a special exchange rate be fixed for remittances of capital and profits by foreign firms. This would shift such transactions from the free market to the official market. The Bank of Brasil had previously indicated that it would supply foreign exchange for such purposes up to November 1958 at a rate of Cr$115 to Cr$120. The report does not indicate the reasons for the action, but it presumably reflects some attempt by the Brazilian authorities to cope with the situation of a highly depreciated rate in the free market. It reached a peak of Cr$148 prior to the Minister's announcement.

In our discussions in connection with the Brazilian stand-by, we had been assuming that the remittances of foreign firms would continue to be in the free market. Their transfer to the official market automatically increases the pressure on exchange availabilities. These payments would now be added to the official exchange budget and increase the exchange deficit requiring foreign financing by the full amount of remittances of foreign firms. It is also to be noted that Brazil has not requested Fund approval for these changes in its exchange system. From the Fund viewpoint, these transactions include "current transactions" under Article XIX (i) requiring Fund approval.

2. The Journal of Commerce also reports other measures planned by the Government, including the tightening of control to discourage under-invoicing of exports and the abolition of minimum premiums for the auctioning of bilateral currencies. As you know, the Brazilians have been permitting under-invoicing of exports as a means of encouraging coffee exports, despite the appreciated rate. When the staff had proposed considerable devaluation in the rate for coffee, one of the factors it had had in mind was to make it possible for Brazil to avoid these repeated changes in exchange regulations and the leakage to the free market of coffee exchange. As for the proposed change with respect to bilateral currencies to conform to our own suggestions to the Brazilians, it will be recalled that, when Mr. Ribeiro first came to Washington, he discussed with us the possibility of the disposal of accumulations of bilateral currencies through discriminatory techniques. We had indicated the preference for reducing the floor prices for such currencies and thus enabling them to be sold for whatever the market would bring.

3. Ordinarily, we would approach the Executive Director of the country concerned with such information and ask for official advice. In view of your negotiations with the Brazilian authorities you may find it desirable to go somewhat beyond this with Mr. Paranagua. Judging from what we read in the newspaper report, the proposed measure on remittance of foreign firms seems to be inadvisable since it would involve a substantial change in the exchange budget. We believe it would be desirable for Brazil not to act on this matter at this time but instead to discuss it with the Fund within the context of our present negotiations.

INTERNATIONAL MONETARY FUND

May 21, 1958

Mr. Del Canto
Mr. Friedman
Mr. Gold

Attached is the most recent draft of the Brazilian stand-by arrangement under discussion.

G. A. Costanzo

5/21/58

Brazil: Draft Stand-by Arrangement

1. Annexed hereto is a letter dated from the Minister of Finance, President of the Bank of Brazil, and Executive Director of the Superintendency of Money and Credit of Brazil which sets forth the policies and intentions which the authorities of Brazil will pursue.

2. In consideration of the policies and intentions set forth in the annexed letter and the need for exchange stabilization funds for the successful implementation of the stabilization program, the International Monetary Fund agrees to a stand-by arrangement for the support of these policies and intentions.

3. Brazil and the Fund will remain in close consultation during the period the stand-by arrangement is in effect. This consultation may take the form of correspondence and visits of officials of the Fund to Brazil or of representatives of Brazil to Washington. In addition, Brazil will keep the Fund informed of developments in the exchange, credit and fiscal situation through reports at intervals or dates requested by the Fund during the period the stand-by arrangement is in effect.

4. For a period of one year from , Brazil will have the right, unless the Fund gives Brazil notice to the contrary, to purchase the currencies of other members from the Fund in exchange for its own currency, so long as such purchases do not bring the Fund's holdings of Brazilian cruzeiros above their present level, which is 125 per cent of quota, increased by the equivalent in Brazilian cruzeiros of 37.5 million U.S. dollars. In the first ninety days after , Brazil will limit its purchases so as not to increase the Fund's holdings of Brazilian cruzeiros above the level of 138.33 per cent of quota. Brazil will make

any purchases in the next ninety days in installments and will not increase the Fund's holdings of Brazilian cruzeiros to the level of 150 per cent of quota before . The amounts that Brazil may purchase under this paragraph 4 shall not be increased by reason of any purchases of Brazilian cruzeiros by other members.

5. Brazil will pay charges for this stand-by arrangement in accordance with the decision of the Fund of December 23, 1953.

6. Subject to paragraph 4 and the paragraph in the annexed letter dealing with consultation and agreement with the Fund on the terms on which subsequent drawings may be made under this stand-by arrangement if certain limits are exceeded, Brazil will have the right to engage in the transactions covered by this stand-by arrangement without further review by the Fund. This right can be suspended only with respect to requests received by the Fund after: (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions either generally under Article XVI, Section 1(a)(ii), or in order to consider a proposal made by an Executive Director or the Managing Director formally to suppress or limit the eligibility of Brazil.

7. Three years after each purchase of exchange by Brazil under this arrangement, Brazil shall repurchase an equivalent amount of cruzeiros from the Fund; provided that if the cruzeiros held by the Fund as a result of transactions under this arrangement are reduced by repurchases under Article V, Section 7, or otherwise, such reductions shall be credited against the earliest amounts that become payable under this paragraph 7. Repurchases shall be made in gold or convertible currencies acceptable to the Fund.

8. The rate of exchange at which Brazil will purchase currencies from the Fund in exchange for cruzeiros and at which the Fund will return cruzeiros in repurchase operations and make all other computations involving Brazilian cruzeiros will be such rate as the Fund may determine from time to time under Article IV, Section 8, of the Fund agreement.

The Managing Director May 21, 1958

Jorge Del Canto and Irving S. Friedman

Brazil—Exchange System

1. Today's Journal of Commerce reports that the Minister of Finance has announced that he has asked that a special exchange rate be fixed for remittances of capital and profits by foreign firms. This would shift such transactions from the free market to the official market. The Bank of Brazil had previously indicated that it would supply foreign exchange for such purposes up to November 1958 at a rate of Cr$115 to Cr$120. The report does not indicate the reasons for the action, but it presumably reflects some attempt by the Brazilian authorities to cope with the situation of a highly depreciated rate in the free market. It reached a peak of Cr$148 prior to the Minister's announcement.

In our discussions in connection with the Brazilian stand-by, we had been assuming that the remittances of foreign firms would continue to be in the free market. Their transfer to the official market automatically increases the pressure on exchange availabilities. These payments would now be added to the official exchange budget and increase the exchange deficit requiring foreign financing by the full amount of remittances of foreign firms. It is also to be noted that Brazil has not requested Fund approval for these changes in its exchange system. From the Fund viewpoint, these transactions include "current transactions" under Article XIX (i) requiring Fund approval.

2. The Journal of Commerce also reports other measures planned by the Government, including the tightening of control to discourage under-invoicing of exports and the abolition of minimum premiums for the auctioning of bilateral currencies. As you know, the Brazilians have been permitting under-invoicing of exports as a means of encouraging coffee exports, despite the appreciated rate. When the staff had proposed considerable devaluation in the rate for coffee, one of the factors it had had in mind was to make it possible for Brazil to avoid these repeated changes in exchange regulations and the leakage to the free market of coffee exchange. As for the proposed change with respect to bilateral currencies to conform to our own suggestions to the Brazilians, it will be recalled that, when Mr. Ribeiro first came to Washington, he discussed with us the possibility of the disposal of accumulations of bilateral currencies through discriminatory techniques. We had indicated the preference for reducing the floor prices for such currencies and thus enabling them to be sold for whatever the market would bring.

3. Ordinarily, we would approach the Executive Director of the country concerned with such information and ask for official advice. In view of your negotiations with the Brazilian authorities you may find it desirable to go somewhat beyond this with Mr. Paranagua. Judging from what we read in the newspaper report, the proposed measure on remittance of foreign firms seems to be inadvisable since it would involve a substantial change in the exchange budget. We believe it would be desirable for Brazil not to act on this matter at this time but instead to discuss it with the Fund within the context of our present negotiations.

Mr. G. A. Costanzo

Joseph Gold

Subject: Brazil - Stand-by Arrangement

If the structure of the draft letter of May 20 is retained, paragraph 6 of the draft stand-by arrangement should be amended as follows:

> "Subject to paragraph 4 above and paragraph 12 in the annexed letter, Brazil will have the right . . ."

There is no need to amend the stand-by arrangement now, but we should keep this point in mind for the next draft or the final version.

May 21, 1958

cc: Mr. Del Canto
Mr. Friedman

OFFICIAL **OUTGOING MESSAGE** **OFFICIAL**

FOR PREPARING OFFICER
- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: Herculano Borges da Fonseca

SUPERMOC

Rio de Janeiro (Brasil)

NO. 3

Would appreciate receiving by cable most recent data available on outstanding balance of medium-term suppliers' credits registered with SUMOC by following currency breakdown: convertible currencies, ACL dollars and bilateral currencies. Data sought is in table 5.3 of SUMOC Bulletin. For convertible currencies we wish only balance shown in columns entitled "entidades particulares--USA " and "Suica". For ACL dollars and bilateral currencies show the total. Balances desired as of December 31, 1957 were 323, 188.7 and 53.7. Please indicate separately amount included in these figures for one year automobile industry credits.

Costanzo
Interfund

RACostanzo/CDFinch/

Dr By EMayes

Department W.H.

Date May 20, 1958

AUTHORIZATION

J. DEL CAMPO
Signature

Second Signature When Required

DISPATCHED
MAY 20 1958
BY
CODE
ROOM

FOR CODE ROOM

Time Received 11:20 AM
Time Dispatched 12:50 PM
Number of Words 150
Log 2:615
Route ALL AMERICA
Operator AT

DO NOT TYPE BELOW THIS LINE

INTERNATIONAL MONETARY FUND

May 16, 1958

Mr. Del Canto

Wm Brand

G. A. Costanzo

Aide-Memoire

The Fund staff has carefully examined the proposals embodied in the proposed draft letter from the Brazilian monetary authorities. I regret to inform you that it is my considered opinion as well as that of the Fund staff that the proposals outlined therein are not adequate for the attainment of internal and external financial stability. Under the proposed program, Brazil would continue to suffer from inflation and would remain in fundamental disequilibrium in its foreign payments.

The exchange proposals are particularly defective in suggesting the maintenance of too appreciated a rate for privileged imports. This group of goods includes at present substantially more than half of total imports and more than two thirds of the critical dollar import group. Under the Brazilian proposal, these goods would receive a rate of Cr$58.82 which compares with a rate of over Cr$140 for general category imports and over Cr$300 for special category imports.

The maintenance of an exchange rate, which is admittedly too appreciated, overstimulates the demand for a major group of imports. Currently, Brazil has a payments deficit of over $200 million in aggregate payments of $1,500 million. There is little prospect for the reduction of this deficit unless the exchange rate for this group of imports is substantially altered.

The existence of this subsidized group of imports gravely distorts internal cost relationships. The rate proposed of Cr$58.82 per U.S. dollar prices these goods at less than two thirds of a reasonable estimate of their cost in a free market. This distortion will ultimately have to be eliminated and prolonging the period it applies intensifies the maldistribution of resources. Domestic substitutes for such imports are inhibited and investment in facilities based on the use of imported goods overstimulated.

Further, the suggested exchange system produces exchange profits which are inadequate to offset the inflationary impact of the Government's fiscal and coffee policies. The low preferential rate channels the exchange profits which would otherwise be available for this purpose into subsidies on imports. Precise estimates of the gap are not feasible, particularly in view of the uncertain commitment on coffee financing. On our tentative calculations, it appears probable that the gap at your proposed exchange rates might amount to some Cr$15 billion in 1958 as a whole.

The program outlined lacks adequate safeguards for effective implementation. In other countries it has been found essential to strengthen the forces for stabilization by some overt action and the authorities have even preferred to have such undertakings embodied in the stand-by arrangement with the Fund. These undertakings have provided the authorities with needed backing in their efforts to achieve stabilization.

In the search for ways of overcoming the above difficulties and finding a mutually satisfactory basis for agreement, the following is submitted for the consideration of the Brazilian authorities:

(a) On the export side, the Brazilian proposal with respect to coffee and cocoa rates would appear acceptable for reasons relating to the uncertain state of the international coffee market. The Brazilian authorities, however, are urged to agree to the consolidation of the rate for all other exports at Cr$92 instead of the two proposed categories of Cr$70 and Cr$92. It is essential for balance of payments reasons to provide a realistic rate of exchange for other exports. The trend in the general cost of living index will depend on the over-all monetary and fiscal policies and will not be significantly affected by the elimination of the Cr$70 rate for certain exports. The Fund staff welcomes the Brazilian proposal to eliminate the "symbolic purchases and sales" system which has been damaging to the Brazilian economy.

(b) As previously indicated, both for balance of payments and internal financial considerations, it is not possible to accept an initial rate of Cr$58.82 for preferential imports. It is recognized, however, that an immediate adjustment in this rate from Cr$52 to Cr$100 may be very difficult for social and political reasons. Therefore, perhaps a way out of these difficulties would be a compromise proposal along the following lines:

(1) An initial rate for preferential imports considerably higher than the Brazilian proposal of Cr$58.82. Acceptance of the proposal above to consolidate the rate for other exports at Cr$92 would in itself increase the cost of exchange beyond Cr$58.82.

(2) A reduction in the commodities eligible for this preferential treatment. For example, the application of the preferential rate could be limited solely to those articles covered by Article 50, paragraph 1, sub-paragraphs (a) and (e), namely, newsprint, wheat, and petroleum and petroleum products. Commodities included in Article 50, paragraph 1, sub-paragraphs (b), (d), and (e) would be subject to the effective rate for general category imports. This proposal would eliminate the exchange subsidy for capital goods and fertilizers and insecticides. It follows that imports against suppliers' credits also would be subject to the general category rate. In view of the growing debt burden, quantitative limits could be placed on suppliers' credits.

(3) The agreed initial preferential rate would then be adjusted gradually to a realistic rate as proposed by the Brazilian authorities. There should be, however, an automatic procedure for the adjustment of this rate over time. For example, after the initial adjustment of the preferential rate with the beginning of the stabilization program, the preferential rate might be increased thereafter by 10 points at the end of each succeeding quarter until the differential between the preferential rate and the effective rate for general category imports is eliminated.

(c) In order to compensate for the difficulties which you foresee in obtaining legislation needed to ensure implementation of the stabilization program and to reinforce the position of the Brazilian authorities in carrying out this program, it has been proposed that the use of Fund financial assistance be related to the actual implementation of the stabilization program. This could be achieved by providing that, subject to observance of the terms of the stand-by arrangement, Brazil would limit its drawings during the first three months to a maximum net amount of $20 million, and would spread the remainder over a period of not less than a further three months.

(d) The above are the more important points on which agreement is lacking. There are other points in the Brazilian draft letter which need clarification, but it is believed that these points will not offer major obstacles. The language on the coffee stockpiling policy in particular is not clear and will need clarification. It is assumed, however, that the Brazilian Government is still proposing to put the burden of coffee retention on the producers, so that no use of aging or Bank of Brazil credit will be needed to finance the retention of the coffee surplus, except for the possible purchase of any shortfall in coffee exports below the 15 million bag target.

The above proposals have been prepared by the Fund staff on the basis of a careful study, including discussions in Brazil, of the Brazilian financial problem and represent the staff's estimate of the minimum requirements for a financial rehabilitation plan that is coherent in itself and can be conscientiously recommended for acceptance to the Executive Board. I am in full agreement with the views of the Fund staff and would ask that you transmit the staff proposals to the Brazilian authorities for their consideration. I need not stress the advantage to Brazil of the adoption of a comprehensive financial stabilization plan which would offer hope for enduring internal and external stability and, therefore, command the full intellectual and financial support of the International Monetary Fund.

May 16, 1958

INTERNATIONAL MONETARY FUND

May 16, 1958

Mr. Del Canto

G. A. Costanzo

MAY 16 1958
(This was revised.)

Aide-Memoire

The Fund staff has carefully examined the proposals embodied in the proposed draft letter from the Brazilian monetary authorities. I regret to inform you that it is my considered opinion as well as that of the Fund staff that the proposals outlined therein are not adequate for the attainment of internal and external financial stability. Under the proposed program, Brazil would continue to suffer from inflation and would remain in fundamental disequilibrium in its foreign payments.

The exchange proposals are particularly defective in suggesting the maintenance of too appreciated a rate for privileged imports. This group of goods includes at present substantially more than half of total imports and more than two thirds of the critical dollar import group. Under the Brazilian proposal, these goods would receive a rate of Cr$58.62 which compares with a rate of over Cr$140 for general category imports and over Cr$300 for special category imports.

The maintenance of an exchange rate, which is admittedly too appreciated, overstimulates the demand for a major group of imports. Currently, Brazil has a payments deficit of over $200 million in aggregate payments of $1,500 million. There is little prospect for the reduction of this deficit unless the exchange rate for this group of exports is substantially altered.

The existence of this subsidized group of imports gravely distorts internal cost relationships. The rate proposed of Cr$58.62 per U.S. dollar prices these goods at less than two thirds of a reasonable estimate of their cost in a free market. This distortion will ultimately have to be eliminated and prolonging the period it applies intensifies the maldistribution of resources. Domestic substitutes for such imports are inhibited and investment in facilities based on the use of imported goods overstimulated.

Further, the suggested exchange system produces exchange profits which are inadequate to offset the inflationary impact of the Government's fiscal and coffee policies. The low preferential rate channels the exchange profits which would otherwise be available for this purpose into subsidies on imports. Precise estimates of the gap are not feasible, particularly in view of the uncertain commitment on coffee financing. On our tentative calculations, it appears probable that the gap at your proposed exchange rates might amount to some Cr$15 billion in 1958 as a whole.

The program outlined lacks adequate safeguards for effective implementation. In other countries it has been found essential to strengthen the forces for stabilization by some overt action and the authorities have even preferred to have such undertakings embodied in the stand-by arrangement with the Fund. These undertakings have provided the authorities with needed backing in their efforts to achieve stabilization.

In the search for ways of overcoming the above difficulties and finding a mutually satisfactory basis for agreement, the following is submitted for the consideration of the Brazilian authorities:

(a) On the export side, the Brazilian proposal with respect to coffee and cacao rates would appear acceptable for reasons relating to the uncertain state of the international coffee market. The Brazilian authorities, however, are urged to agree to the consolidation of the rate for all other exports at Cr$92 instead of the two proposed categories of Cr$70 and Cr$92. It is essential for balance of payments reasons to provide a realistic rate of exchange for other exports. The trend in the general cost of living index will depend on the over-all monetary and fiscal policies and will not be significantly affected by the elimination of the Cr$70 rate for certain exports. The Fund staff welcomes the Brazilian proposal to eliminate the "symbolic purchases and sales" system which has been damaging to the Brazilian economy.

(b) As previously indicated, both for balance of payments and internal financial considerations, it is not possible to accept an initial rate of Cr$58.82 for preferential imports. It is recognized, however, that an immediate adjustment in this rate from Cr$52 to Cr$100 may be very difficult for social and political reasons. Therefore, perhaps a way out of these difficulties would be a compromise proposal along the following lines:

(1) An initial rate for preferential imports considerably higher than the Brazilian proposal of Cr$58.82.

(2) A reduction in the commodities eligible for this preferential treatment. For example, the application of the preferential rate could be limited solely to those articles covered by Article 50, paragraph 1, sub-paragraphs (a) and (e), namely, newsprint, wheat, and petroleum and petroleum products. Commodities included in Article 50, paragraph 1, sub-paragraphs (b), (d), and (e) would be subject to the effective rate for general category imports. This proposal would eliminate the exchange subsidy for capital goods and fertilizers and insecticides. Imports against suppliers' credits would also be subject to the general category rate.

(3) The agreed initial preferential rate would then be adjusted gradually to a realistic rate as proposed by the Brazilian authorities. There should be, however, an automatic procedure for the adjustment of this rate over time. For example, after the initial adjustment of the preferential rate with the beginning of the stabilization program, the preferential rate might be increased thereafter by 10 points at the end of each succeeding quarter until the differential between the preferential rate and the effective rate for general category imports is eliminated.

(c) In order to compensate for the difficulties which you foresee in obtaining legislation needed to ensure implementation of the stabilization program and to reinforce the position of the Brazilian authorities in carrying out this program, it has been proposed that the use of Fund financial assistance be related to the actual implementation of the stabilization program. The formula suggested of a net drawing on the Fund of $5 million per month was put forth for this purpose.

(d) The above are the more important points on which agreement is lacking. There are other points in the Brazilian draft letter which need clarification, but it is believed that these points will not offer major obstacles. The language on the coffee stockpiling policy in particular is not clear and will need clarification. It is assumed, however, that the Brazilian Government is still proposing to put the burden of coffee retention on the producers, so that no use of agios or Bank of Brazil credit will be needed to finance the retention of the coffee surplus, except for the possible purchase of any shortfall in coffee exports below the 15 million bag target.

The above proposals have been prepared by the Fund staff on the basis of a careful study, including discussions in Brazil, of the Brazilian financial problem and represent the staff's estimate of the minimum requirements for a financial rehabilitation plan that is coherent in itself and can be conscientiously recommended for acceptance to the Executive Board. I am in full agreement with the views of the Fund staff and would ask that you transmit the staff proposals to the Brazilian authorities for their consideration. I need not stress the advantage to Brazil of the adoption of a comprehensive financial stabilization plan which would offer hope for enduring internal and external stability and, therefore, command the full intellectual and financial support of the International Monetary Fund.

Re: Brazil

The Managing Director

May 15, 1958

Joseph Gold

The Revolving Feature of Stand-by Arrangements - Repurchase

1. In our proposed stand-by arrangement for Brazil, we have adopted the usual technique of providing that Brazil may draw up to a particular level measured in terms of the Fund's holdings of the member's currency, provided that the amounts that can be drawn shall not be increased by other members' drawings of Brazilian currency. This language permits a member to offset by drawing under the stand-by arrangement whatever repurchases it makes during the period of the arrangement, because the member may still draw up to the same level of Fund holdings. This also enables the member to draw even where it is clearly repurchasing in respect of a drawing made before the stand-by arrangement took effect.

2. As you know, Brazil is considering the use of the proposed stand-by arrangement to "re-finance" in this way a repurchase of $37.5 million falling due in respect of an earlier transaction. At least one Executive Director is disturbed by this prospect, and I have talked to his Alternate.

3. We have now had 25 stand-by arrangements, counting each renewal, as we must under the Fund's general policy on stand-by arrangements, as a new arrangement: Belgium, Bolivia (2), Chile (3), Colombia, Cuba, Finland, France (2), Honduras, India, Iran, Mexico, Netherlands, Nicaragua, Paraguay, Peru (4), United Kingdom (2), South Africa. In all but one of these (Finland), we have had a provision in the standard form described in paragraph 1 above.

4. The provision in question originated with the first stand-by arrangement, Belgium (June 1952), and preceded the first general policy on stand-by arrangements. The purpose was to put a revolving amount at the disposal of Belgium during the period of five years in which it was making a certain credit available to EPU. The provision gave effect to this intention. The next step was the adoption of the first general policy on stand-by arrangements (October 1952), at which time there was no pointed discussion of the provision. The next step to note is the stand-by arrangement for Finland (November 1952), the only case in which the provision does not appear. Here, however, there was no text at all; the arrangement was merely said to be for a fixed amount on the terms of the general policy decision. This was also the only case of a stand-by arrangement before the second general policy on stand-by arrangements (December 1953).

5. The discussion in connection with the second general policy is most important for the present purpose. The discussion was largely in terms of providing resources to back convertibility. Hence, it was argued by

some Directors, notably the United Kingdom Director, that the amounts available under stand-by arrangements should be wholly net, i.e. gross drawing rights would be increased not only by repurchases during the term of the arrangement but also by sales of the member's currency. The United States Director refused to accept this view, on the ground that counter-sales would create an open-ended commitment to provide convertible currencies. He explicitly accepted the idea that repurchases would add to gross drawing rights. The compromise was a paragraph in the decision stating that each stand-by arrangement would specify what could be drawn under it. However, it was clear from the debate that a common ground had been reached, and in all 23 cases since the second policy decision the provision for increasing gross drawing rights in respect of repurchases but not sales of the member's currency has been included in the stand-by arrangement without Board comment.

6. Drawings under stand-by arrangements after repurchases in respect of pre-stand-by transactions have been made by Chile and Colombia. In the former case, management and staff urged this on the country as the course to be preferred to a request for postponement because it ensured observance of the three to five year period for use of the Fund's resources. In the case of Bolivia, a request for postponement well beyond five years was agreed by the Board after considerable debate on the ground that the member could have obtained an even longer period by "re-financing" under the stand-by arrangement without seeking the consent of the Board.

7. Experience so far does not indicate any abuse of the right to "re-finance" a repurchase under a stand-by arrangement. It is true that the member, in effect, can get another three years automatically, but since the existence of a stand-by arrangement indicates that it is facing problems, it could probably get a substantial postponement of the repurchase anyway. The difference would be the necessity for special application to the Fund and debate by the Board if postponement were the alternative.

8. Even though the experience to date shows no abuse, some sort of case could be made for re-examination of this aspect of stand-by arrangements. It could be argued that the revolving feature was related to the special circumstances of the Belgian case and the provision of resources for convertibility. It might also be argued that when some Directors thought of the revolving feature they did not have in mind the repurchase of pre-stand-by drawings, although there is no evidence of this, and the intention would almost certainly have been to provide a net amount to support convertibility whatever repurchases were made after the stand-by arrangement took effect.

9. If it is decided to change the present form of the stand-by arrangement, this would be an important change in Fund practice. It should be brought to the attention of the Board as a possible change of policy, and should be discussed in a general way in divorce from any special case.

10. The possible courses of action are many and some of them raise difficult technical questions on which a much more detailed memorandum would have to be prepared. Some of the possibilities are these:

(i) Retention of the present practice in all cases.

(ii) The provision of a fixed amount, as in the case of Finland, with no revolving feature of any kind.

(iii) The present practice modified by some attempt to allocate repurchases as between pre-stand-by drawings and drawings under the stand-by arrangement, with an addition to the amount that can be drawn in respect of the latter. The major difficulty here would be to allocate repurchases accruing under Article V, Section 7(b). There is no obvious allocation of an obligation resulting from an increase in the member's reserves to any transaction, and a rule of thumb would have to be adopted. This could be allocation of the repurchase obligation to:

(a) the earliest transaction first (first in, first out); or

(b) the latest transaction first (last in, first out), the technique that the Fund adopts for charges; or

(c) transactions in the order ~~of~~ that representations or commitments for repurchase fall due, since all transactions after February 1952 carry such representations or commitments. In applying this rule of thumb, it would have to be decided whether the three to five year principle is a representation or commitment for repurchase after three years, or five years, or some other fixed date in between.

11. My own conclusions at the moment are:

(A) The present practice should be retained because it has not given rise to abuse.

(B) If the present practice is to be changed in any case, there should first be a general Board discussion on the policy issue.

(C) If a change is made, the technique of a fixed amount of credit should be adopted. Any problems caused by repurchase would then be handled by requests for postponement or further assistance.

(b) If a change is made, and a revolving feature is attempted for repurchases in respect of drawings under the stand-by arrangement only, then repurchase obligations under Article V, Section 7(b) should be allocated according to the dates of representations or commitments for repurchase, and the three to five year principle should be regarded as a three year representation or commitment. I have not attempted to set out any argument here to justify these last views, because the problems involved are highly technical and complicated.

Cc: Mr. Del Canto
Mr. Costanzo
Mr. Friedman
Mr. Jones

INTERNATIONAL MONETARY FUND

May 15, 1958

TO : The Managing Director

FROM : Jorge Del Canto and Irving S. Friedman

SUBJECT: Brazil--Use of Fund Resources

Attached is an aide-memoire prepared in accordance with your instructions. It has been prepared in the form for transmittal to Mr. Paranagua.

5/15/58
(Was revised)

Aide-Memoire

I have carefully examined the proposals embodied in the proposed draft letter from the Brazilian monetary authorities. I regret to inform you that it is my considered opinion as well as that of the Fund staff that the proposals outlined therein are not adequate for the attainment of internal and external financial stability. Under the proposed program, Brazil would continue to suffer from inflation and would remain in fundamental disequilibrium in its foreign payments.

The exchange proposals are particularly defective in suggesting the maintenance of too appreciated a rate for privileged imports. This group of goods includes at present substantially more than half of total imports and more than two thirds of the critical dollar import group. Under the Brazilian proposal, these goods would receive a rate of Cr$58.82 which compares with a rate of over Cr$140 for general category imports and over Cr$300 for special category imports.

The maintenance of too appreciated an exchange rate for such a major group of imports provides them with an undue stimulus. Currently, Brazil has a payments deficit of over $200 million in aggregate payments of $1,500 million. There is little prospect for the reduction of this deficit unless the exchange rate for this group of exports is substantially altered.

The existence of this subsidized group of imports gravely distorts internal cost relationships. The rate proposed of Cr$58.82 per U.S. dollar prices these goods at less than two thirds of a reasonable estimate of their cost in a free market. This distortion will ultimately have to be eliminated and prolonging the period it applies intensifies the maldistribution of resources. Domestic substitutes for such imports are inhibited and investment in facilities based on the use of imported goods overstimulated.

Further, the suggested exchange system produces exchange profits which are inadequate to offset the inflationary impact of the Government's fiscal and coffee policies. The low preferential rate channels the exchange profits which would otherwise be available for this purpose into subsidies on imports. Precise estimates of the gap are not feasible, particularly in view of the uncertain commitment on coffee financing. On our tentative calculations, it appears probable that the gap at your proposed exchange rates might amount to some Cr$15 billion in 1958 as a whole.

The program outlined lacks adequate safeguards for effective implementation. In other countries it has been found essential to strengthen the forces for stabilization by some overt action. In the case of France, this was achieved by having Parliament adopt a limit to the government deficit and set a ceiling on government expenditures. In other cases, the authorities have preferred to have such undertakings embodied in the stand-by arrangement with the Fund. These undertakings have provided the authorities with needed backing in their efforts to achieve stabilization.

In the search for ways of overcoming the above difficulties and finding a mutually satisfactory basis for agreement, I wish to submit for your consideration the following:

(a) On the export side, I would be prepared to accept the Brazilian proposal with respect to the coffee and cacao rates, but would urge the Brazilian authorities to agree to the consolidation of the rate for all other exports at Cr$92 instead of the two proposed categories of Cr$70 and Cr$92. Particularly, in view of the world market conditions for coffee, it is essential to provide a realistic rate of exchange for other exports. The trend in the general cost of living index will depend on the over-all monetary and fiscal policies and will not be significantly affected by the elimination of the Cr$70 rate for certain exports. The Fund staff welcomes the Brazilian proposal to eliminate the "symbolic purchases and sales" system which has been damaging to the Brazilian economy.

(b) As previously indicated, both for balance of payments and internal financial considerations, we cannot accept an initial rate of Cr$58.82 for preferential imports. We recognize, however, that an immediate adjustment in this rate from Cr$52 to Cr$100 may be very difficult for social and political reasons. Therefore, perhaps a way out of these difficulties would be a compromise proposal along the following lines:

(1) An initial rate for preferential imports considerably higher than the Brazilian proposal of Cr$58.82.

(2) A reduction in the commodities eligible for this preferential treatment. For example, the application of the preferential rate could be limited solely to those articles covered by Article 50, paragraph 1, sub-paragraphs (a) and (e), namely, newsprint, wheat, and petroleum and petroleum products. Commodities included in Article 50, paragraph 1, sub-paragraphs (b), (d), and (e) would be subject to the effective rate for general category imports. This proposal would eliminate the exchange subsidy for capital goods and fertilizers and insecticides.

(3) The agreed initial preferential rate would then be adjusted gradually to a realistic rate as proposed by the Brazilian authorities. There should be, however, an automatic procedure for the adjustment of this rate over time. For example, the preferential rate might be increased 10 points each quarter until the differential between the preferential rate and the effective rate for general category imports is eliminated.

(c) In order to compensate for the difficulties which you foresee in obtaining legislation needed to ensure implementation of the stabilization program and to reinforce the position of the Brazilian authorities in carrying out this program, we have proposed that the use of Fund financial assistance be related to the actual implementation of the stabilization program. The formula suggested of a net drawing on the Fund of $5 million per month was put forth for this purpose.

(d) The above are the more important points on which agreement is lacking. There are other points in the Brazilian draft letter which need clarification, but it is believed that these points will not offer major obstacles. The language on the coffee stockpiling policy in particular is not clear and will need clarification. It is assumed, however, that the Brazilian Government is still proposing to put the burden of coffee retention on the producers, so that no use of aging or Bank of Brazil credit will be needed to finance the retention of the coffee surplus, except for the possible purchase of any shortfall in coffee exports below the 15 million bag target.

The Managing Director May 13, 1958

Jorge Del Canto and Irving S. Friedman

Brazil — Draft Letter Submitted by Mr. Paranagua

1. The proposals contained in the draft letter submitted by Mr. Paranagua are essentially the same as those in the original Brazilian plan as explained to us by the Brazilian representatives. The only effort in the draft letter to meet the Fund proposals are the abolition of "symbolic purchases and sales" and consolidation of other exports into two rate categories, Cr$70 and Cr$92. The Fund proposal for the limitation of the budgetary cash deficit in 1958 to Cr$20 billion is also accepted.

2. The key provisions of the draft letter regarding public discussion and Fund surveillance of the stand-by are omitted. Throughout the letter all reference to public announcement and discussion of the program have disappeared. The references to Congress have also been eliminated. Those parts of the letter providing for a phasing of the stand-by, consultations in the event of departure from the program and for the stationing of a Fund official in Brazil are also deleted.

3. The Brazilian draft deletes references to "exchange reform". The program submitted in fact contains little modification of the existing exchange system. Except for the abolition of the system of symbolic purchase, no alteration in existing procedures is proposed. The abolition of symbolic purchase is desirable, although its significance is reduced by the retention of two rates, Cr$70 and Cr$92, in addition to the coffee and cacao rates. Thus, what is proposed remains very close to the treatment actually accorded under the present system. The proposed increase in the rates for preferential imports to Cr$58.82 is not a new Brazilian Government decision, but is a measure contemplated for some time in order to conform with existing exchange legislation. A statement is made that the "preferential import rate will be gradually and as speedily as possible readjusted", but this does not overcome the present weakness nor give specific enough assurances as to the future. Both the initiative and judgment in this matter are left entirely to the Brazilian authorities.

4. The proposals not only sharply reduce the effective devaluation of the rate proposed in the staff draft, but also reduce the direct action to reduce the payments imbalance. Exchange treatment of suppliers' credits is left unchanged, thereby perpetuating the overstimulus to the rapidly growing debt burden. The reduction of auction amounts by regular schedule is deleted. A reference is left to lowering the auction amounts if the agio falls but no figures are given of the level of agio at which this will operate.

5. The provisions on the budget and credit policy are in general acceptable. The variations may need to be discussed for clarification but they do not appear to be of major significance. It should be noted, however, that under the Brazilian exchange system proposals, exchange profits, which were

relied upon by the staff to offset the budget and other inflationary pressures in 1956, will fall substantially short of the amount needed to eliminate the inflation. The coffee policy may be satisfactory, but the wording is vague, leaving the possibility of some financing other than purchase. Therefore, some redrafting is essential if a meaningful commitment is to be obtained.

6. Conclusion. The draft letter submitted by Mr. Paranagua does very little to advance the negotiations. The Government appears unwilling to admit the need for any fundamental changes in policy and is remaining firm on its announced policy of being opposed to any exchange reform. The situation, therefore, does not appear much different from that which existed at the time of the recent Fund mission's visit to Brazil. The Government is willing to make promises with respect to credit and fiscal policy, but is unwilling to accept any Fund proposals which require immediate concrete action. Brazil appears also reluctant to make specific commitments in a form which is binding and to make the receipt of Fund assistance contingent upon the actual carrying out of the indicated program. In view of these general considerations and the observations in the previous paragraphs, the Fund staff does not consider the proposals contained in Mr. Paranagua's draft letter acceptable as a basis for Fund financial assistance.

7. Recommendation. It is recommended that the following position be transmitted to the Brazilian Government through Mr. Paranagua:

(a) The proposals contained in the recent draft letter submitted by Mr. Paranagua are not adequate. The program outlined therein fails to redress the fundamental balance of payments disequilibrium and eliminate the internal inflation.

(b) The position remains as outlined in the draft letter submitted to Mr. Paranagua on May 7. In particular, it is felt that a more thorough exchange reform than that contained in the draft letter is essential to a solution of Brazil's present financial difficulties.

(c) The tying of Fund financial assistance to actual performance against the stabilization program undertaken by Brazil is also considered an indispensable part of a stand-by arrangement.

INTERNATIONAL MONETARY FUND

May 13, 1958

Mr. Del Canto
Mr. Friedman
Mr. Gold

Attached is a copy of a draft letter submitted by Mr. Paranagua as a counterproposal to our proposed letter of May 7.

There is also attached a proposed memorandum to Mr. Jacobsson analyzing the draft letter submitted by Mr. Paranagua.

Your comments are requested as soon as possible.

G. A. Costanzo

DRAFT

May 13, 1958

To: The Managing Director

From: Jorge Del Canto and Irving S. Friedman

Subject: Brazil—Draft Letter Submitted by Mr. Paranagua

1. The proposals contained in the draft letter submitted by Mr. Paranagua are essentially the same as those in the original Brazilian plan as explained to us by the Brazilian representatives. The only effort in the draft letter to meet the Fund proposals are the abolition of "symbolic purchases and sales" and consolidation of other exports into two rate categories, Cr$70 and Cr$92. The Fund proposal for the limitation of the budgetary cash deficit in 1958 to Cr$20 billion is also accepted.

2. The key provisions of the draft letter proposed by the Fund are omitted. Those parts of the Fund letter providing for a phasing of the stand-by, consultations in the event of departure from the program and for the stationing of a Fund official in Brazil are deleted. Also throughout the letter all references to public announcement and discussion of the program have disappeared. The references to Congress have also been eliminated.

3. The Brazilian draft carefully deletes references to "exchange reform". The program submitted in fact contains little modification of the existing exchange system. Except for the abolition of the system of symbolic purchase, no alteration in existing procedures is proposed. The abolition of symbolic purchase is rendered less significant by the retention of two rates, Cr$70 and Cr$92, which are very close to the treatment actually accorded under the present system. The proposed increase in the rates for

preferential imports to Cr$58.82 is no new Brazilian Government decision, but is a measure contemplated for some time in order to conform with existing exchange legislation.

4. The proposals not only sharply reduce the effective depreciation of the rate proposed in the staff draft, but also reduce the direct action to reduce the payments imbalance. Exchange treatment of suppliers' credits is left unchanged, thereby perpetuating the overstimulus to the rapidly growing debt burden. The reduction of auction amounts by regular schedule is deleted. A reference is left to lowering the auction amounts if the ágio falls but no figures are given of the level of ágio at which this will operate.

5. The provisions on the budget and credit policy are in general acceptable. The variations may need to be discussed for clarification but they do not appear to be of major significance. The coffee policy also appears satisfactory but in this instance the wording has become so vague that some redrafting is essential if a binding commitment is to be obtained.

6. Conclusion. The draft letter submitted by Mr. Paranagua does very little to advance the negotiations. The Government appears unwilling to admit the need for any fundamental changes in policy and is remaining firm on its announced policy of being opposed to any exchange reform. The situation, therefore, does not appear much different from that which existed at the time of the recent Fund mission's visit to Brazil. The Government is willing to make promises with respect to credit and fiscal policy, but is unwilling to accept any Fund proposals which require immediate concrete action. Brazil appears also reluctant to make specific commitments in a form which is binding and to make the receipt of Fund assistance contingent upon the actual carrying out of the indicated program.

In view of these general considerations and the observations in the previous paragraphs, the Fund staff does not consider the proposals contained in Mr. Paranagua's draft letter acceptable as a basis for Fund financial assistance.

7. Recommendation. It is recommended that the following position be transmitted to the Brazilian Government through Mr. Paranagua:

(a) The proposals contained in the recent draft letter submitted by Mr. Paranagua are not adequate. The program outlined therein fails to eliminate the internal inflation and redress the fundamental balance of payments equilibrium.

(b) The Fund's position remains as outlined in the draft letter of May 7. In particular, the Fund feels that a more thorough exchange reform than that contained in the draft letter is essential to a solution of Brazil's present financial difficulties.

INTERNATIONAL MONETARY FUND

May 12, 1958

TO : Mr. D. Finch

FROM : J. Del Canto

The Executive Director for France, M. de Largentaye, has requested some meaningful statistics on the working of the Hague and Paris Clubs in the foreign trade of Brazil and Argentina. He would like to see in what way the pattern of trade has been changed by these arrangements, but he does not want a very elaborate study (a page or two). Could you please ask your country expert to look into this.

MAY 9 1958

Sir:

Consultations under Article XIV, Section 4
of the Fund Articles of Agreement

I write with reference to preceding correspondence regarding the obligation of members under Article XIV, Section 4 of the Fund Agreement each year to initiate consultations with the Fund as to the further retention of any restrictions maintained under Article XIV, Section 2.

The seventh series of consultations has just started, and there is enclosed a memorandum on the position with regard to the 1957 consultations and to the procedure for the 1958 consultations.

The Executive Board decided to maintain unchanged the existing procedure.

Very truly yours,

Per Jacobsson
Managing Director

Enclosure

Dr. J. J. Cardozo de Mello Neto
Diretor Executivo
Superintendencia da Moeda e do Credito
120 Avenida Rio Branco, 9º andar
Rio de Janeiro, Brazil

cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
WHD
ERD
RES
LEG
SEC

Ne B

INTERNATIONAL MONETARY FUND

Mr. Del Canto -

For information

JG

Brady : Vile : Brand

May 6/58.

Joseph Gold

The Managing Director May 8, 1958

Joseph Gold

French Government Control of Parliamentary Initiative with Respect to Expenditure

I think that we have finally disentangled the provisions of French law on this matter. No attempt is made in this note to provide the references to the relevant enactments and decrees, but the result of them seems to be as follows.

The Law of December 13, 1957 places a limit on the impasse (F 600 billion) and on the total of expenditures (F 5,300 billion). This law provides that the Government may invoke a government decree of June 19, 1956, which was adopted pursuant to a Parliamentary enactment. Under the decree of June 19, 1956, Parliament is denied the right to vote further expenditures unless at the same time it provides for corresponding new revenues or economies. However, the Law of December 13, 1957 says that, in order to ensure observance of the prescribed limits, the Government may invoke the earlier decree even if Parliament in proposing to increase expenditures provides at the same time for corresponding revenues or economies.

In effect, therefore, the Government can block any proposal by Parliament in 1958 to increase expenditures or the impasse whether or not the proposed measure involves corresponding new revenues or economies. Presumably, the Government itself could still legally initiate a measure increasing expenditures if provision is made for corresponding revenues or economies. Furthermore, there would be nothing to prevent Parliament from amending the Law of December 13, 1957 by omitting reference to the decree of June 19, 1956 or from taking steps to repeal the decree.

May 7, 1958

Mr. Southard:

With reference to Brazil, we have prepared the attached comparison of how much the exchange differential account ("agio" account) will yield if the preferential rate for imports ranges between 60 and 100 cruzeiros per dollar and if the coffee rate is kept at its present level or moved somewhat.

J. Del Canto

Attachment

JDelCanto:arb

MAY 7 1958

(Hondelet & Mr. Rosenzweig)

Dear Mr. Jacobsson:

Currently Brazil is suffering from severe balance of payments difficulties. International reserves are at present low and lines of credit with New York banks are virtually exhausted. The recent deterioration has been associated with speculation in the coffee market stimulated by the potential emergence of a large excess supply. However, the problems derive more fundamentally from a sustained credit expansion based on growing fiscal imbalance. To cope with this situation, the Government of Brazil plans to bring the internal economy into balance by appropriate budget and credit measures and to adopt an exchange reform and to take various other exchange measures so as to limit the deficit in Brazil's external accounts in 1958 and to bring these accounts into balance in 1959. This letter sets forth established policies of the Brazilian Government, and both the Executive and Congress, within the field of their respective functions, are carrying out and will continue to carry out these policies.

To carry out this program, in view of the present exchange situation, Brazil needs the assurance of financial support from the Fund in addition to the amounts to be obtained from other sources. The Government of Brazil, therefore, requests through us a stand-by arrangement with the Fund for the period of one year. Brazil would like to have the right to purchase the currencies of other members from the Fund in exchange for its own currency so long as such purchases do not bring the Fund's holding of Brazilian currency above their present level increased by the equivalent in Brazilian cruzeiros of US$37.5 million. Brazil intends to restrict any purchases that it may make under the stand-by arrangements to limited installments.

As a first step in bringing Brazil's external accounts into balance in 1959, Brazil intends to limit its payments deficit in "convertible" and ACL currencies in 1958 to $200 million, including repurchase obligations to the Fund. To attain this result instructions have been issued to limit payments for preferential imports and capital service in these currencies strictly to the amounts specified in the Brazilian exchange budget for 1957 and to reduce gradually the amounts for auction of U.S. and ACL dollars. Starting in June 1958, the amounts of U.S. dollars auctioned will be reduced from the current weekly level of $4 million by $250,000 each month until a level of $2.5 million per week is reached in November. Should the fiscal, credit and other exchange measures mentioned in this letter reduce import demand, amounts auctioned will be reduced so as to maintain a minimum dollar agio for the general import category of Cr$120 per U.S. dollar. This policy will be followed until Brazil restores its lines of credit with the New York banks. Auctions of ACL currencies will be correspondingly reduced from their current weekly level of ACL$3.2 million by ACL$100,000 each month starting in June until a level of ACL$2.6 million per week is reached in November.

As a second and more fundamental step in attaining external equilibrium in 1959, the Government of Brazil proposes to adopt the following exchange measures to inhibit imports and encourage new exports. These new measures result in a considerable simplification in Brazil's exchange system and are in line with our long-range goal of exchange rate unification. On the export side, Brazil proposes to eliminate its present system of four export categories plus special arrangements and bonuses, including "symbolic purchases and sales". Instead, the Government intends to maintain the present effective exchange rates for coffee and cacao and cacao products, except that this will be done without the use of the present premia to coffee for quality, but all other exports will be subject to an effective rate of exchange of Cr$100 per U.S. dollar. On the import side, the auction mechanism will be maintained in its present form with no new specific auctions being introduced. All capital goods imports and payments under suppliers' credits will be effected at the auction rate for general category imports. Other imports receiving privileged treatment (including newsprint) will be incorporated into a single group to which an effective rate of exchange of Cr$100 per U.S. dollar will apply. All invisible and capital transactions now receiving privileged treatment will also be subject to the rate of Cr$100 per U.S. dollar.

The exchange system outlined above is expected to yield substantial profits. In order to ensure the efficacy of the credit and fiscal measures outlined below, the existing balance of the "agios account" together with gross agio receipts minus payments to exporters under the export arrangements described above will be sterilized (except for the financing of any stockpiling in conformity with the coffee policy described in this letter). Brazil intends to deposit in a special blocked subaccount of the agios account the local currency counterpart of any foreign financial assistance, including all drawings on the International Monetary Fund, received during 1958 in connection with this stabilization plan. The counterpart to be so deposited will be calculated on the basis of the average dollar auction rate of the week preceding the actual receipt of this foreign assistance.

To bring the internal economy into balance and thereby reduce pressure on the balance of payments, the Government of Brazil is adopting new measures in the fields of credit, fiscal and coffee policy. With regard to the last, the most serious financial problem facing Brazil results from the large potential surplus of coffee for 1958-59. Exportable production of coffee in Brazil is estimated to reach 23 million bags; it is intended, however, to limit exports to 15 million bags. Neither the Government nor the banking system can afford to finance this potential surplus without grave consequences for our internal economic stability. The Government, therefore, has adopted the following coffee program for the year 1958-59: (1) a surrender will be required by the producer at the railhead to the Coffee Institute for conversion to fertilizer of all coffee below a certain specified grade, representing approximately 10 per cent of the crop; (2) a surrender at the railhead to the Institute will be required of ___ 1/ per cent of each shipment for stockpiling or sale for domestic consumption;

1/ The percentage to be inserted here will be that required to reduce the supply available for export to 15 million bags.

(3) the producer will be compensated on these surrenders only for his proportionate share of sales to the domestic market; and (4) the Coffee Institute will purchase for stockpiling only the difference between the amount actually exported and 15 million bags if exports fall short of the latter figure.

The fiscal position of the Government is second only to the coffee situation as a problem facing Brazil. Based on existing authorizations and obligations, a cash deficit of Cr$47 billion was estimated for 1958. However, at the request of the Government, Congress has adopted a measure ensuring that in no circumstances will government borrowing from all sources exceed Cr$20 billion in 1958 for financing the budgetary and extra-budgetary cash deficits. In order to conform with this ceiling on the budgetary cash deficit, the Government has decided not to avail itself fully of the expenditures authorized by Congress. Accordingly, expenditures totaling Cr$15 billion have been cut from the original budget of Cr$125 billion; a further Cr$13 billion of expenditures will be postponed and extra-budgetary expenditures will be limited to Cr$23 billion. Cash expenditures, thus, will be held to Cr$135 billion while revenues are currently estimated at Cr$115 billion. In the event that revenues fall short of this estimate or if new budget authorizations are made, the Government will make further economies against existing authorizations or obligations as required to limit the cash deficit in 1958 to Cr$20 billion. For 1959 the Government proposes to attain fiscal balance. To attain this goal the Government has submitted to Congress a budget for 1959 with expenditures and revenues balanced at Cr$125 billion.

With regard to credit policy, the Brazilian Government has taken the following measures:

(1) Bank of Brazil credit to the private nonbanking sector is subject to a graduated ceiling so that by the end of 1958 these credits will be only 5 per cent above the end of 1957 level.

(2) Bank of Brazil credit to states and municipalities will be limited to the level outstanding at the end of 1957.

(3) The level of Bank of Brazil rediscounts and other credits to commercial banks shall not exceed as of the end of each month in 1958 the level outstanding as of the end of the corresponding month of 1957.

(4) The central bank rediscount rate has been increased from the previous 6 per cent to 8 and 10 per cent, depending on the type of paper presented for rediscount.

(5) Legislation has been introduced in Congress raising the maximum legal reserves to 12 and 24 per cent for time and demand deposits, respectively--the present legal maxima are 6 and 14 per cent. Upon enactment of the new legislation, the Government will increase bank reserve requirements to the legal maxima and require

commercial banks to deposit 50 per cent of the current increment in deposits to legal reserves until the new reserve requirements are satisfied.

(6) Should currency issue exceed Cr$98 billion at any time in the second half of 1958, the necessity of taking supplementary measures to the above will be considered.

If between May ___ and December 31, 1958, the limits described in this letter on the cash deficit of the Government and borrowing from the banking system, Bank of Brazil credit to the private nonbanking sector and to states and municipalities, Bank of Brazil rediscounts and other credits to commercial banks, currency issue, exchange sales in the auction markets, use of agio accounts, or if between July 1, 1958 and June 30, 1959 the limit on purchases of coffee by the Coffee Institute are exceeded, Brazil will consult with the Fund and agree with it on the terms on which further drawings may be made. Brazil will consult the Fund and reach agreement before December 31, 1958, on limits for 1959 for the items referred to in the preceding sentence, it being understood as stated above that the 1959 budget will be in balance. The limits thus agreed for 1959 will be substituted for the former limits for the purposes of the foregoing assurance and the stand-by arrangement on and after January 1, 1959.

If it appears likely at any time that any of the limits referred to in the previous paragraph will be exceeded, the Government will take the necessary measures to ensure that the limits are observed. To assist the Government in implementing the program, the Government has instructed the Executive Director of the Superintendency of Money and Credit to report monthly to the Council of the Superintendency of Money and Credit developments relating to the limits.

We will provide the Fund with all the data and information it needs to appreciate Brazil's economic position and future progress. We will also be glad to have a Fund official resident in Brazil to facilitate the operation of the stand-by arrangement and visits from Fund officials to review our situation at such times as you may deem appropriate.

Sincerely yours,

Dr. Jose Maria Alkmim
Minister of Finance _____

Dr. Sebastiao Paes de Almeida
President of the Bank of Brazil _____

Dr. J. J. Cardoso de Mello Neto
Executive Director of the
Superintendency of Money and Credit _____

5/1/58

Brazil: Draft Stand-by Arrangement

1. Annexed hereto is a letter dated from the Minister of Finance, President of the Bank of Brazil and Executive Director of the Superintendency of Money and Credit of Brazil which sets forth the policies and intentions which the authorities of Brazil will pursue.

2. In consideration of the policies and intentions set forth in the annexed letter and the need for exchange stabilization funds for the successful implementation of the stabilization program, the International Monetary Fund agrees to a stand-by arrangement for the support of these policies and intentions.

3. Brazil and the Fund will remain in close consultation during the period the stand-by arrangement is in effect. This consultation may take the form of correspondence and visits of officials of the Fund to Brazil or of representatives of Brazil to Washington. In addition, Brazil will keep the Fund informed of developments in the exchange, credit and fiscal situation through reports at intervals or dates requested by the Fund during the period the stand-by arrangement is in effect.

4. For a period of one year from , Brazil will have the right, unless the Fund gives Brazil prior notice to the contrary, to purchase the currencies of other members from the Fund in exchange for its own currency, so long as such purchases do not bring the Fund's holdings of Brazilian cruzeiros above their present level, which is 125 per cent of quota, increased by the equivalent in Brazilian cruzeiros of 37.5 million U.S. dollars; provided that such purchases shall not, without the consent of the Fund, increase the Fund's holdings of Brazilian cruzeiros by the equivalent of more than five million U.S. dollars within any 30 days; and

provided further that the amounts Brazil may purchase under this paragraph 4 shall not be increased by reason of any purchases of Brazilian cruzeiros by other members.

5. Brazil will pay charges for this stand-by arrangement in accordance with the decision of the Fund of December 23, 1953.

6. Subject to paragraph 4 and the paragraph in the annexed letter dealing with consultation and agreement with the Fund on the terms on which subsequent drawings may be made under this stand-by arrangement if certain limits are exceeded, Brazil will have the right to engage in the transactions covered by this stand-by arrangement without further review by the Fund. This right can be suspended only with respect to requests received by the Fund after: (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions either generally under Article XVI, Section 1(a)(ii), or in order to consider a proposal made by an Executive Director or the Managing Director formally to suppress or limit the eligibility of Brazil.

7. Three years after each purchase of exchange by Brazil under this arrangement, Brazil shall repurchase an equivalent amount of cruzeiros from the Fund; provided that if the cruzeiros held by the Fund as a result of transactions under this arrangement are reduced by repurchases under Article V, Section 7, or otherwise, such reductions shall be credited against the earliest amounts that become payable under this paragraph 7. Repurchases shall be made in gold or convertible currencies acceptable to the Fund.

8. The rate of exchange at which Brazil will purchase currencies from the Fund in exchange for cruzeiros and at which the Fund will return cruzeiros in repurchase operations and make all other computations involving Brazilian cruzeiros will be such rate as the Fund may determine from time to time under Article IV, Section 8, of the Fund agreement.

The Managing Director May 6, 1958

Jorge Del Canto and Irving S. Friedman

Brazil--Incidence of Rate Charges on Exchange Profits

1. For the purpose of evaluating the impact of changes in the exchange rate system on the exchange profits, a rough summary balance of payments projection for 1958 is given below.

	In millions of U.S. dollars
I. Exchange Receipts	
1. Coffee	750
2. Cacao and products	100
3. Other	500
Total	1,350
II. Exchange Payments	
1. At preferential rate	
a. Imports (newsprint--$40 million)	750
b. Capital and service 1/	250
2. Auction market	500
Total	1,500
III. Deficit	150

1/ Excluding Fund repurchase obligation.

2. It follows from the above that each 10 point variation in the various export rates means a per annum increase in cruzeiro payments of Cr$7.5 billion for coffee, Cr$1 billion for cacao and products, and Cr$5 billion for other exports. Thus, a lowering in the rate for other exports from Cr$100 to Cr$90 per U.S. dollar would mean an increase in exchange profits of Cr$5 billion per annum. A reduction in the coffee rate from Cr$70 to Cr$50 would add Cr$15 billion per annum to exchange profits.

3. It also follows that a reduction in the exchange rate for preferential imports and capital and service payments from the proposed Cr$100 rate to Cr$90 would mean a loss in exchange profits of Cr$10 billion per annum. A reduction in this rate to Cr$80 would mean a loss of Cr$20 billion. However, the above includes about US$150 million of government and Bank of Brazil payments, so that the net impact of a reduction of 10 and 20 points can be estimated at Cr$8.5 billion and Cr$17 billion, respectively.

4. In summary, the exchange profits in 1958 under the exchange systems under discussion would be as follows below. It should be noted, however, that these estimates assume an average auction rate of Cr$120 and Cr$5 billion exchange profits in the period January-May 1958.

(a) Original staff proposal (i.e., Cr$70 rate for coffee and cacao, and Cr$100 rate for other exports and preferential imports)

	In billions of cruzeiros
Exchange profits	40
Offsets to exchange profits	
1. Budget deficit	20
2. Expansion Bank of Brazil credit to private sector	5
3. Purchase 2 million bags of coffee	6
Total offsets	31

(b) Present staff proposal (i.e., existing rates of about Cr$50 for coffee and cacao and Cr$100 rate for other exports and preferential imports)

	In billions of cruzeiros
1. Exchange profits with Cr$70 rate for coffee and cacao	40
2. Savings for 7/12 of year (June-Dec.) of reduction in coffee and cacao rates to Cr$50	12
Total exchange profits	52

(c) Third alternative--Export rates same as in (b) above, but preferential rate of Cr$90

	In billions of cruzeiros
1. Exchange profits as in (b)	52
2. Less loss from reduction in preferential rate from Cr$100 to Cr$90 (7/12 of Cr$10)	6
Total exchange profits	46

(d) Fourth alternative (i.e., experts same as in (b) and (c) above, but preferential rate of Cr$80)

	In billions of cruzeiros
1. Exchange profits as in (b)	52
2. Less loss from reduction in preferential rate to Cr$80 (7/12 of Cr$20)	12
Total exchange profits	40

(c) Present Brazilian proposal (i.e., preferential rate of Cr$60 and on export side assuming existing effective rate of about Cr$50 for coffee and cacao and Cr$70 and Cr$90 for other exports)

		In billions of cruzeiros
1. Exchange profits as in (b) above		52
Plus additional profit from reduction in rate for other exports from Cr$100 to average of Cr$80 (7/12 of Cr$10 billion)		6
		58
Less loss from reduction in preferential rate from Cr$100 to Cr$60	-34	
Less loss from reduction in average auction rate from Cr$120 to Cr$100	-10	-44
Total exchange profits		14
2. Inflationary factors to be offset:		
(a) Budgetary deficit		20
(b) Bank of Brazil credit expansion		5
(c) Purchase of 2 million bags		6
		31
3. Inflationary gap		17

Thus, under the Brazilian program there would be an inflationary gap of at least Cr$17 billion with no allowances for slippages in the program, possible need to buy more than 2 million bags of coffee, and excessive commercial bank credit expansion which has already occurred in 1958 and is likely to continue under a stabilization program until the existing excess liquidity of banks has been absorbed.

5. It is important to note that the purpose of this memorandum is only to give a broad approximation of the internal balance under varying assumptions as to the exchange system. Obviously, balance of payments equilibrium and the economic effects of distortions arising from the exchange system are other basic considerations in the determination of an appropriate exchange rate system.

SECRET May 5, 1958

Mr. Southard:

Dr. Paranagua has made some comments to the staff's aide memoire on Brazil, which was given to the Brazilians by the Managing Director last week. You might be interested in these comments, which I passed on to you on a personal basis.

J. Del Canto

Attachment

May 5, 1958

Mr. Friedman
Mr. Gold
Mr. Costanzo
Mr. Finch

Attached the memo containing Dr. Paranagua's comments to the staff's aide memoire, as mentioned by Mr. Jacobsson this morning.

J. Del Canto

Attachment

Remarks on the Aide Memoire of April 30, 1958

On 3 a. The communication that the Brazilian government is going to curtail the estimated fiscal deficit from Cr$45 down to Cr$25 billion was referring to a careful study of the possibilities of increasing revenues and cutting expenditures. Nevertheless, we feel that once we have all the program into force, including the credit operations abroad, the administration will be in a better political position to impose even more strict conditions for budgetary expenditures.

Regarding the idea of sterilizing the counterpart of foreign assistance and the net exchange profits to offset the inflationary impact of government borrowing from the banking system, we can only understand it as meaning that non-inflationary funds will be used to finance the government, so obviating the issue of new currency.

Regarding governmental borrowing from the banking system, it is important to distinguish between borrowing from the Bank of Brazil and borrowing from other banks. Borrowing from private banks means only that these institutions will grant less credit to the private sector and more credit to the public sector, the total level of private bank loans remaining unchanged. Governmental borrowing from the Bank of Brazil is a different problem because the Bank of Brazil operations are more directly connected to the process of issuance of new currency. Even in this latter case it is not unavoidable that the Bank of Brazil will have to issue new currency to finance its share of the federal deficit, because it can count on some very important non-inflationary sources of funds, e.g. the national currency counterpart of balance of payments deficit financing.

On 3 b. The ceilings already placed on the Bank of Brazil credits to the private non-banking community, including semi-public corporations, are stricter than those recommended in the Aide Memoire. According to instructions given by the Minister of Finance to the Bank of Brazil no increase is allowed in the total amount of the quoted operations, though some operations may go higher and others having to go lower. The same applies to rediscounts to commercial banks. Regarding Bank of Brazil loans to state and local governments, the total amount has been decreased by more than Cr$1 billion a year due to the State of Sao Paulo's Government repayment scheme. Most states and municipal governments are not qualified to borrow from the Bank of Brazil on regular commercial terms and they will not receive any assistance this year. In 1957, state and local governments received Cr$3 billion in financial assistance directly from the Federal Treasury but only Cr$200 million this year. This is all the Federal Government intends to do. State and local governments will not be in any position to repay their debts this year, so the Federal Government does not expect to receive the money back; but the state and local governments will not receive any fresh new money.

On 3 c. The Brazilian authorities had made clear that they will not use any inflationary devices to cope with the internal financial problem represented by a possible big surplus in the production of coffee in the next crop year. But they are not in a position to issue the necessary decrees now because this would cause some inconvenient disturbances in the coffee market. So it is not possible that the issue of the decrees be a precondition for accomplishing a drawing from the Fund.

On 3 d. The Brazilian authorities are studying the possibility of making some simplifications of the Brazilian exchange system, mainly on the

export side, because the new Tariff Law has already accomplished an important simplification on the import side. We think it is possible to have only three broad categories for exports: one for coffee and cocoa at the prevailing rates; a second category with a rate of 70 and a third with a rate of 90; the latter would include all products not listed in the second group as well as all manufactured products.

On 3 d i. As we pay more for most exports, there will be an increase in the average cost of exchange for the monetary authorities, and so there will be a readjustment of the import preferential rate. But we think that it would be very inconvenient to adopt a Cr$100 rate per dollar for those preferential imports. The gradual readjustment of the preferential import rates is a more realistic way of dealing with a subject which has many important political and social implications.

Regarding imports of newsprint, it represents a negligible impact on our balance of payments (11.1 million dollars in 1958, for an 847.5 million dollars estimated total, in the convertible currencies area), and the law already provides for an automatic adjustment of the specific preferential rate. On the other side, a change of legislation on the subject would not be easy to get, due to the influence of the newspapers in Congress.

On 3 d ii. Here again we wish to remark that a gradual adjustment process is deemed more convenient than an abrupt equalization of all import rates. Regarding the suggestion for the establishment of a floor level of the agio for the general category of imports at Cr$120 per U.S. dollar, we have the two following main remarks. First, the prevailing exchange legislation put in force by the new Tariff Law prohibits the executive authorities from establishing floor levels for the agios for imports coming from countries of the convertible

currency area and limited convertible area. Second, the rate of Cr$120 to the dollar would mean the freezing of a distorted level. Only recently the agio reached Cr$120 because of panic in the exchange market due to very well known factors. We think that once credit operations abroad have been completed, and confidence in the exchange market is restored, the agio will probably go down to less than Cr$100 per dollar. Regarding the suggestion for further and gradual reduction of U.S. dollar and A.C.L. dollar amounts to be auctioned in the exchange markets, Brazilian authorities think that they cannot go into further reductions without running the risk of creating serious difficulties in the economy of the country. If the rates will go down much below the Cr$100 per dollar level, the Brazilian authorities will study the possibility of gradual reduction of the amounts of foreign currency sold in the exchange auctions.

On 3 d iii. With regard to the rates for capital goods imports and the payment for imports under supply credits, we wish to remark that some of them are already paying the general category import rate. Of course, now that a very strict new policy has been adopted by the SUMOC Council regarding official registrations of suppliers credit, very few authorizations will be granted and only in the cases of equipment imports destined to highly essential investments which, according to the law, can receive preferential exchange treatment. As we have already remarked in other occasions, the Brazilian government is deeply concerned with the problem of increasing the Brazilian investment rate and seeing that a priority is given to those investments considered fundamental for the economic development of the country. So for the time being Brazilian authorities deem it necessary to avoid giving more income to some important primary export goods producing sectors; with the prevailing exchange rate they can export their products and have net profits high enough to keep the incentive for continuing

to produce for exportation. Our past experience is that when these primary goods producing sectors have large windfall profits, due mostly to cyclical increases in world prices, they usually indulged in extravagant consumption and real estate investment.

On 3 d iv. We have already indicated that there is a possibility of having only three broad categories for exports. With regard to the possibility of adopting a Cr$70 per dollar rate for coffee, cocoa and cocoa products, and the rate of Cr$100 per dollar for all other exports, we wish to make the following principal remarks. A Cr$70 per dollar rate for coffee would certainly result in a substantial fall in the Brazilian coffee prices in the New York Coffee Exchange and in world markets, as has always occurred every time there has been a modification in the dollar exchange rate for coffee and even as a consequence of rumors of a pending exchange reform in Brazil. This is well-known to anyone who follows the New York Coffee Market. Moreover such a step would start a price war between coffee producing countries with far-reaching and unpredictable consequences. Besides that, and perhaps even more serious, would be the psychological effect on the buyers abroad, who are very much responsible for the present difficulties, due to their fear of a continuous drop in the coffee price. The friendly and increasingly growing commercial and political relations of Brazil with the other South American countries exclude the possibility of engaging in a price war. The problem of keeping the same share of the American markets is assured now by the restoration of the minimum four cents differential between the Brazilian coffee price and the Colombian price. So the remaining difficulties in the coffee market can be explained mainly in terms of the attitude of the coffee buyers, who will remain with the same attitude until they are quite sure that no further decrease in the coffee price

will be promoted by producing countries. The best way for avoiding the inconvenience of a fall in the coffee price is to see that excessive production will not go into the world markets. It is relevant to note that there is no unfavorable attitude of the consumer regarding the prevailing coffee price level.

Regarding the suggestion for paying Cr$100 per dollar for other exports, we think that it is much more than is needed to promote Brazilian exports in the present conditions, and we fear that such a rate will induce some inconvenient changes in the pattern of investment.

On 3 d v. We have already remarked that the idea of sterilizing the net profits resulting from the spread between the effective buying and selling rates of exchange is unacceptable. Those net profits probably would add up to Cr$20 billion in the current year of 1958. Sterilizing Cr$20 billion (out of a total money supply of Cr$200 billion) would mean the adoption of a deflationary policy, which could not be presented as the right monetary policy for Brazil under the current conditions. All we deem it necessary to do is to keep inflation from going further, not to deflate. As we have already remarked, we accept the expression "sterilization" as meaning the capture of non-inflationary funds by the Brazilian authorities as a means of tackling the problem of the residual fiscal deficit and the coffee production surplus.

On 6 a. To bring export taxation from the state to the federal level of government would required an amendment of the Brazilian Constitution, which would call for a special Assembly. That is very difficult to attain.

On 6 b. The Central Bank problem as viewed by the Brazilian authorities, is only a question of giving a better shape to present Brazilian monetary

legislation and institutions, in the sense of having some simplification and concentration. In this sense the Brazilian authorities think that having a central bank is a very good thing, but we think that the present structure doesn't prevent the authorities from implementing a comprehensive and effective monetary policy.

On 6 c. Here, again, an amendment of the Brazilian Constitution would be required for the adoption of the suggestion made, which we think would be very valuable for the government as an instrument of economic policy.

May 2, 1958

Comparison of Program Proposed by Fund
With that of Brazilian Government

(All figures in billions of cruzeiros)

	Brazilian Government Program	Program Proposed by Fund
I. Fiscal Policy		
1. Reduction in 1958 budgeted expenditures	10	15
2. Postponement actual cash expenditures	7	13
3. Ceiling on extra-budgetary expenditures	No ceiling	23
4. Ceiling on actual cash deficit	No ceiling; estimate of 25	20
5. Ceiling on government borrowing from banking system	No ceiling; estimate of 25	20
6. Ceiling on total budget expenditures in 1959	—	125
7. 1959 budgetary cash deficit	—	Zero
II. Credit Policy		
1. Ceiling on Bank of Brazil credit to private nonbanking sector	Ceiling set at level outstanding 12-31-57; no indication whether ceiling applies for all of 1958	End of 1958 level shall not exceed end of 1957 level by more than 5%; permissible expansion to be allocated by quarters
2. Ceiling on Bank of Brazil credit to states and municipalities	No ceiling	Ceiling set for 1958 at level outstanding 12-31-57
3. Ceiling on Bank of Brazil rediscounts and other credits to commercial banks	Level at end of each month in 1958 should not exceed level as of end of same month of previous year	Same as Brazilian program
4. Central bank rediscount rate	Increase from 6 to 8 and 10%	Same as Brazilian program
5. Legal reserve requirements for private commercial banks	From 14 to 24% against demand deposits; from 7 to 12% against time deposits; 50% increment in deposits to be deposited to legal reserves until new reserve ratios achieved	Same as Brazilian program

Comparison of Program Proposed by Fund
With that of Brazilian Government (continued)

(All figures in billions of cruzeiros)

	Brazilian Government Program	Program Proposed by Fund
III. Monetary Policy		
1. Ceiling on currency issue	No ceiling	Additional measures to be taken if currency issue exceeds Cr$98 billion any time in second half of 1958
IV. Exchange System		
1. Export rates		
Coffee	Cr$37.06	Cr$70
Cacao and products	Cr$43.06	Cr$70
Other	Symbolic purchases and sales (i.e. nil buy rates resulting from crossing administratively determined appropriate internal price with world market price)	Cr$100
2. Import rates		
Preferential imports	Cr$60	Cr$100
General category imports	General auction market	Same as Brazilian program
Special category imports	Special auction market	
Capital goods imports of national interest	Cr$60	General auction market
3. Free market for capital and invisibles	No change in existing system	No change in existing system
V. Exchange Budget		
1. Preferential imports	—	Strictly limited to amounts specified in official exchange budget
2. Auction market ceiling on sales of U.S. dollars	No ceiling	Current level $16 million per month to be reduced by $1 million per month until level of $11 million per month reached

Comparison of Program Proposed by Fund
With that of Brazilian Government (continued)

(All figures in billions of cruzeiros)

	Brazilian Government Program	Program Proposed by Fund
V. Exchange Budget (con't)		
3. Auction market ceiling on sales of ACL dollars	No ceiling	Current level of $12.8 million to be reduced by $400,000 per month until level of $10.4 million per month reached

May 1, 1958

Note on Receipts of Coffee Producers Under Proposed Plan and Under Existing Circumstances

Under the proposed coffee retention program and exchange rate of Cr$70 per U.S. dollar, the coffee producer in 1958/59 should receive about Cr$2,500 per bag, if world prices hold at present levels. This is based on an estimated exportable production of 23 million bags of which 8 million are surrendered without compensation and 15 million are sold at a price of $55 per bag (equivalent to 50 cents per pound) converted at Cr$70 per U.S. dollar.

The comparable return in 1957/58 appears to be about Cr$3,000 per bag. The average dollar price per bag is understood to be $60 while the effective average exchange rate, allowing for permitted underinvoicing and for the bonus scheme, is Cr$50. This price is received for the total exportable crop of 18 million bags, there being no compulsory surrender.

The total proceeds of coffee producers in 1958/59 under the proposed program would be about Cr$58 billion, about Cr$4 billion higher than in 1957/58, due to the much larger crop. However, the producer will be faced with the rise in costs of 10-15 per cent associated with the inflation together with the extra costs of harvesting and handling 5 million more bags. The excess receipt may also disappear if coffee prices should decline--a price of 45 cents per pound would reduce estimated aggregate cruzeiro proceeds to Cr$1 billion below the 1957/58 level.

OFFICIAL OUTGOING MESSAGE OFFICIAL

FOR PREPARING OFFICER

- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

No. 2.

Charges due pursuant to Article V, Section 8(c) for period ended April 30, 1958 amount to 5,224.920 troy ounces of fine gold; advice airmailed today. These charges are payable within 30 days from date of cable.

Code

Test No.

INTERFUND

Drawn By WFWalsh/al
Department Office of the Treasurer
Date May 1/58

cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM

Time Received 3:40 PM
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DO NOT TYPE BELOW THIS LINE

Mr Del Canto

The Managing Director

April 29, 1958

J. Del Canto

Brazil: Use of Fund Resources

Attached are three documents prepared jointly by the Western Hemisphere, Exchange Restrictions and Legal Departments. These documents are:

(1) An aide-memoire outlining the minimum essentials of a stabilization program for Brazil;

(2) A draft letter of commitment which Brazil would be expected to agree to as part of any Fund financial assistance; and

(3) A proposed draft stand-by arrangement.

You might consider a business meeting with the Brazilians, either prior to your luncheon or right after, at your convenience.

Attachments 3

CONFIDENTIAL

Aide Memoire

April 30, 1958

1. The Brazilian authorities have approached the Fund with respect to the possibility of obtaining financial assistance. Staff discussions have been held with the Brazilian representative. He has outlined in some detail the financial program which the Brazilian Government is tentatively preparing for the purpose of coping with the present situation. It would seem as if the authorities and the public in Brazil were increasingly anxious to find a lasting solution for the country's financial problems.

2. The staff has reviewed the tentative stabilization program in the light of the current Brazilian situation. It is felt that the proposals so far put forward require further strengthening if they are to achieve the objectives of containing the Brazilian inflation, strengthening the balance of payments, and improving the exchange system. It is felt desirable to divide up the problem into two phases: A minimum program for 1958-1959, and certain more long-run measures to be taken as soon as possible. It will be noted that the minimum program outlined below can be regarded as a further development of the proposals already envisaged by the Brazilian authorities.

3. The chief features of the minimum program for 1958 are the following:

a. The deficit in the 1958 budget of the Federal Government is to be reduced to below Cr$20 billion through curtailment and postponement of expenditures. It is recognized that the financing of this deficit will involve Government borrowing from the banking system, but it will be possible to offset this inflationary impact through the sterilization of the counterpart of foreign assistance and of exchange profits. A ceiling of Cr$20 billion should be established on Government borrowing from the banking system.

b. In addition, ceilings are to be placed on Bank of Brazil credits to the private non-banking community limiting the increase to 5 per cent in 1958, on loans to state and municipal governments, and on Bank of Brazil rediscounting of commercial bank paper. The rediscount rate has been raised from 6 per cent to 8 and 10 per cent depending on the type of loan involved. The maximum legal reserve ratios of commercial banks are to be approximately doubled in line with the legislation now pending in the Brazilian Congress, and a 50 per cent marginal reserve requirement is to be imposed on new deposits until banks acquire the reserve ratios established in the legislation.

c. The necessary decrees will be issued providing for treatment of coffee exports in 1958-59 in line with the proposals Brazil has made to the Fund.

d. Revisions should be made in the exchange system to ensure the success of the domestic stabilization measures and to create a basis for attaining external balance. The individual rate treatment for exports should be eliminated, the wide spread among rates for imports substantially reduced and the average exchange rate depreciated in view of the inflation that has already occurred. The new exchange system would be as follows:

(i) Privileged treatment imports will be placed in one category subject to an exchange rate of <u>at least</u> Cr$100 per U.S. dollar. Total imports in this category will be subject to the ceiling now provided in the exchange budget. The Government will obtain the necessary legislation to eliminate the preferential treatment for imports of newsprint.

(ii) All other imports will be divided between a general category and a special category, and exchange for these will continue to be auctioned as under the existing system. Ceilings will be established on the amounts of U.S. dollars and ACL dollars which can be auctioned in these markets and these will be gradually reduced during 1958 until monthly sales do not exceed $10 million in U.S. dollars and $11 million in ACL dollars. A floor level for the agio for general category imports will be established at Cr$120 per U.S. dollar.

(iii) Capital goods imports and payments for imports under suppliers credits will receive the exchange rate for general category imports.

(iv) All exports are to be placed in two categories--one for coffee, cocoa and cocoa products with an effective rate of Cr$70 per U.S. dollar, and the other for all other exports with a rate of Cr$100 per U.S. dollar.

(v) The profits resulting from the spread between the new Bank of Brazil buying and selling rates will be sterilized except for any sum necessary to finance a decline in coffee exports below 15 million bags in 1958-59.

4. The Government will begin a review of the budget for 1959. The primary goal will be to obtain budgetary equilibrium in 1959. With this end in view, the Government will instruct the Bureau of the Budget to limit 1959 expenditures to Cr$125 billion. In addition to cutting expenditures, especially for military purposes and public investment, a plan should be made for any tax increases necessary to ensure that budget expenditures can be financed from current revenues in 1959. It is assumed that a program covering the same areas of agreement as the 1958 program will be discussed and put into effect for 1959.

5. It should be emphasized that the program outlined above is regarded as the minimum to achieve an end to the inflation and thus provide the basis for sound and steady growth and eliminate the balance of payments difficulties which hamper Brazil internally and externally. The parts of the program are interrelated and interlocked. While some of the features of the program may be modified slightly, offsetting measures will be necessary in other fields to avoid failure of the program.

6. Further steps of a longer-run nature are necessary if stabilization is to become firmly established and a unitary rate system achieved. The most important of these longer-run measures are the following:

a. To eliminate the need for a special export rate for coffee, cocoa and cocoa products, a federal export tax will be needed; and to that end the financial relations existing between the Federal and State Governments should be reviewed to permit the imposition of export taxes in excess of 5 per cent.

b. A Central Bank with effective tools for implementing monetary policy is essential and the Government will forthwith proceed to introduce the necessary legislation to establish a Central Bank.

c. Measures are needed to permit tax legislation to be enacted and become effective in the same fiscal year.

7. On the basis of the above program, it is felt that the Fund could agree to a stand-by of $37.5 million with drawings under it being phased over a given period of time.

4/30/58

CONFIDENTIAL

Dear Mr. Jacobsen:

Currently Brazil is suffering from severe balance of payments difficulties. International reserves are at present low and lines of credit with New York banks are virtually exhausted. The recent deterioration has been associated with speculation in the coffee market stimulated by the potential emergence of a large excess supply. However, the problems derive more fundamentally from a sustained credit expansion based on growing fiscal imbalance. To cope with this situation, the Government of Brazil plans to bring the internal economy into balance by appropriate budget and credit measures and to adopt an exchange reform and to take various other exchange measures so as to limit the deficit in Brazil's external accounts in 1958 and to bring these accounts into balance in 1959.

To carry out this program, in view of the present exchange situation, Brazil needs the assurance of financial support from the Fund in addition to the amounts to be obtained from other sources. The Government of Brazil, therefore, requests through us a stand-by arrangement with the Fund for the period of one year. Brazil would like to have the right to purchase the currencies of other members from the Fund in exchange for its own currency so long as such purchases do not bring the Fund's holding of Brazilian currency above their present level increased by the equivalent in Brazilian cruzeiros of US$37.5 million. Brazil intends to restrict any purchases that it may make under the stand-by arrangements to limited installments.

As a first step in bringing Brazil's external accounts into balance in 1959, Brazil intends to limit its payments deficit in "convertible" and ACL currencies in 1958 to $200 million. To attain this result instructions have been issued to limit payments for preferential imports and capital service in these currencies strictly to the amounts specified in the Brazilian exchange budget for 1957 and to reduce gradually the amounts for auction of U.S. and ACL dollars. Starting in June 1958, the amounts of U.S. dollars auctioned will be reduced from the current weekly level of $4 million by $250,000 each month until a level of $2.5 million per week is reached in November. Should the fiscal, credit and other exchange measures mentioned in this letter reduce import demand, amounts auctioned will be reduced so as to maintain a minimum dollar agio for the general import category of Cr$120 per U.S. dollar. This policy will be followed until Brazil restores its lines of credit with the New York banks. Auctions of ACL currencies will be correspondingly reduced from their current weekly level of ACL$3.2 million by ACL$100,000 each month starting in June until a level of ACL$2.6 million per week is reached in November.

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As a second and more fundamental step in attaining external equilibrium in 1959, the Government of Brazil proposes to adopt the following exchange measures to inhibit imports and encourage new exports. These new measures result in a considerable simplification in Brazil's exchange system and are in line with our long-range goal of exchange rate unification. On the export side, Brazil proposes to eliminate its present system of four export categories plus special arrangements and bonuses. Instead, two export categories are to be established and all other special arrangements will be abolished. The first category will include coffee, cocoa and cocoa products and will receive an effective rate of exchange of Cr$70 per U.S. dollar. The other category will include all other products and will receive an effective rate of exchange of Cr$100 per U.S. dollar. On the import side, the auction mechanism will be maintained in its present form with no new specific auctions being introduced. All capital goods imports and payments under suppliers' credits will be effected at the auction rate for general category imports. Other imports receiving privileged treatment (including newsprint) will be incorporated into a single group to which an effective rate of exchange of Cr$100 per U.S. dollar will apply. All invisible and capital transactions now receiving privileged treatment will also be subject to the rate of Cr$100 per U.S. dollar.

The exchange system outlined above is expected to yield substantial profits. In order to ensure the efficacy of the credit and fiscal measures outlined below, the net agio obtained will be sterilized (except for the financing of any stockpiling in conformity with the coffee policy described in this letter). In addition, Brazil intends to deposit in a special blocked account the local currency counterpart of any foreign financial assistance, including all drawings on the International Monetary Fund, received during 1958 in connection with this stabilization plan. The counterpart to be so deposited will be calculated on the basis of the average dollar auction rate of the week preceding the actual receipt of this foreign assistance.

To bring the internal economy into balance and thereby reduce pressure on the balance of payments, the Government of Brazil is adopting new measures in the fields of credit, fiscal and coffee policy. With regard to the last, the most serious financial problem facing Brazil results from the large potential surplus of coffee for 1958-59. Exportable production of coffee in Brazil is estimated to reach 23 million bags; it is intended, however, to limit exports to 15 million bags. Neither the Government nor the banking system can afford to finance this potential surplus without grave consequences for our internal economic stability. The Government, therefore, has adopted the following coffee program for the year 1958-59: (1) a surrender will be required by the producer at the railhead to the Coffee Institute for conversion to fertilizer of all coffee below a certain specified grade, representing approximately 10 per cent of the crop; (2) a surrender at the railhead to the Institute will be required of ___ 1/ per cent of each shipment for stockpiling or sale for domestic consumption;

1/ The percentage to be inserted here will be that required to reduce the supply available for export to 15 million bags.

(3) the producer will be compensated on these surrenders only for his proportionate share of sales to the domestic market; and (4) the Coffee Institute will purchase for stockpiling only the difference between the amount actually exported and 15 million bags if exports fall short of the latter figure.

The fiscal position of the Government is second only to the coffee situation as a problem facing Brazil. Based on existing authorizations and obligations, a cash deficit of Cr$47 billion was estimated for 1958. The Government of Brazil, however, has adopted an economy program to limit this deficit to Cr$20 billion. The reduction in the budgetary cash deficit to Cr$20 billion will be achieved by cutting Cr$15 billion of expenditures from the original budget of Cr$140 billion, by postponing Cr$13 billion of cash expenditures, and by limiting extra-budgetary expenditures to Cr$23 billion. Cash expenditures, thus, will be held to Cr$135 billion while revenues are currently estimated at Cr$115 billion. Should revenues fall short of this estimate or because of special circumstances new budgetary authorization have to be requested, the Government will make further expenditure cuts against existing authorizations or obligations to limit the cash deficit in 1958 to Cr$20 billion. The Government will also limit the increase in its indebtedness to the banking system to Cr$20 billion. This is a considerable reduction from 1957 when the Government's indebtedness increased by Cr$39 billion. For 1959 the Government proposes to attain fiscal balance. To attain this goal the Budget Bureau (DASP) has been instructed to set an over-all ceiling of Cr$125 billion in budgetary appropriations in the Government's request to Congress for 1959 and to propose whatever tax measures are necessary.

With regard to credit policy the Brazilian Government has taken the following measures:

(1) Bank of Brazil credit to the private nonbanking sector is subject to a graduated ceiling so that by the end of 1958 these credits will be only 5 per cent above the end of 1957 level.

(2) Bank of Brazil credit to states and municipalities will be limited to the level outstanding at the end of 1957.

(3) The level of Bank of Brazil rediscounts and other credits to commercial banks shall not exceed as of the end of each month in 1958 the level outstanding as of the end of the corresponding month of 1957.

(4) The central bank rediscount rate has been increased from the previous 6 per cent to 8 and 10 per cent, depending on the type of paper presented for rediscount.

(5) Legislation has been introduced in Congress raising the maximum legal reserves to 12 and 24 per cent for time and demand deposits, respectively--the present legal maxima are 6 and 14 per cent. Upon enactment of the new legislation, the Government will

increase bank reserve requirements to the legal maxima and require commercial banks to deposit 50 per cent of the current increment in deposits to legal reserves until the new reserve requirements are satisfied.

(6) Should currency issue exceed Cr$98 billion at any time in the second half of 1958, the necessity of taking supplementary measures to the above will be considered.

If between May ___ and December 31, 1958, the limits described in this letter on the cash deficit of the Government and borrowing from the banking system, Bank of Brazil credit to the private nonbanking sector and to states and municipalities, Bank of Brazil rediscounts and other credits to commercial banks, currency issue, exchange sales in the auction markets, use of ágio accounts, or if between July 1, 1958 and June 30, 1959 the limit on purchases of coffee by the Coffee Institute are exceeded, Brazil will consult with the Fund and agree with it on the terms on which further drawings may be made. Brazil will consult the Fund and reach agreement before December 31, 1958, on limits for 1959 for the items referred to in the preceding sentence and the limits thus agreed for 1959 will be substituted for the former limits for the purposes of the foregoing assurance and the stand-by arrangement on and after January 1, 1959.

We will provide the Fund with all the data and information it needs to appreciate Brazil's economic position and future progress. We will also be glad to have a Fund official resident in Brazil to facilitate the operation of the stand-by arrangement and visits from Fund officials to review our situation at such times as you may deem appropriate.

Sincerely yours,

Dr. Jose Maria Alkmin
Minister of Finance _____

Dr. Sebastiao Paes de Almeida
President of the Bank of Brazil _____

Dr. J. J. Cardozo de Mello Neto
Executive Director of the
Superintendency of Money and Credit _____

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Brazil: Draft Stand-by Arrangement

1. Annexed hereto is a letter dated from the Minister of Finance and the other members of the Superintendency of Money and Credit of Brazil which sets forth the policies and intentions which the authorities of Brazil will pursue.

2. In consideration of the policies and intentions set forth in the annexed letter and the need for exchange stabilization funds for the successful implementation of the stabilization program, the International Monetary Fund agrees to a stand-by arrangement for the support of these policies and intentions.

3. Brazil and the Fund will remain in close consultation during the period the stand-by arrangement is in effect.

4. For a period of one year from , Brazil will have the right, unless the Fund gives Brazil prior notice to the contrary, to purchase the currencies of other members from the Fund in exchange for its own currency, so long as such purchases do not bring the Fund's holdings of Brazilian cruzeiros above their present level, which is 125 per cent of quota, increased by the equivalent in Brazilian cruzeiros of 37.5 million U.S. dollars; provided that such purchases shall not, without the consent of the Fund, increase the Fund's holdings of Brazilian cruzeiros by the equivalent of more than five million U.S. dollars within any 30 days; and provided further that the amounts Brazil may purchase under this paragraph 4 shall not be increased by reason of any purchases of Brazilian cruzeiros by other members.

5. Brazil will pay charges for this stand-by arrangement in accordance with the decision of the Fund of December 23, 1953.

6. Subject to paragraph 4 and the paragraph in the annexed letter dealing with consultation and agreement with the Fund on the terms on which

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subsequent drawings may be made under this stand-by arrangement if certain limits are exceeded, Brazil will have the right to engage in the transactions covered by this stand-by arrangement without further review by the Fund. This right can be suspended only with respect to requests received by the Fund after: (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions either generally under Article XVI, Section 1(a)(ii), or in order to consider a proposal made by an Executive Director or the Managing Director formally to suppress or limit the eligibility of Brazil.

7. Three years after each purchase of exchange by Brazil under this arrangement, Brazil shall repurchase an equivalent amount of cruzeiros from the Fund; provided that if the cruzeiros held by the Fund as a result of transactions under this arrangement are reduced by repurchases under Article V, Section 7, or otherwise, such reductions shall be credited against the earliest amounts that become payable under this paragraph 7. Repurchases shall be made in gold or convertible currencies acceptable to the Fund.

8. The rate of exchange at which Brazil will purchase currencies from the Fund in exchange for cruzeiros and at which the Fund will return cruzeiros in repurchase operations and make all other computations involving Brazilian cruzeiros will be such rate as the Fund may determine from time to time under Article IV, Section 8, of the Fund Agreement.

INTERNATIONAL MONETARY FUND

May 5, 1958

Mr. Del Canto:

Unless I hear from you to the contrary, I would like to forward this to Mr. Jacobsson by the end of the day.

Enclosed in red brackets are the hanges.

G. A. Costanzo

Revised

Dear Mr. Jacobsson:

Currently Brazil is suffering from severe balance of payments difficulties. International reserves are at present low and lines of credit with New York banks are virtually exhausted. The recent deterioration has been associated with speculation in the coffee market stimulated by the potential emergence of a large excess supply. However, the problems derive more fundamentally from a sustained credit expansion based on growing fiscal imbalance. To cope with this situation, the Government of Brazil plans to bring the internal economy into balance by appropriate budget and credit measures and to adopt an exchange reform and to take various other exchange measures so as to limit the deficit in Brazil's external accounts in 1958 and to bring these accounts into balance in 1959. This letter sets forth the settled policies of the Brazilian Government, and both the Government and Congress, within the field of their respective functions, are carrying out and will continue to carry out these policies.

To carry out this program, in view of the present exchange situation, Brazil needs the assurance of financial support from the Fund in addition to the amounts to be obtained from other sources. The Government of Brazil, therefore, requests through us a stand-by arrangement with the Fund for the period of one year. Brazil would like to have the right to purchase the currencies of other members from the Fund in exchange for its own currency so long as such purchases do not bring the Fund's holding of Brazilian currency above their present level increased by the equivalent in Brazilian cruzeiros of US$37.5 million. Brazil intends to restrict any purchases that it may make under the stand-by arrangements to limited installments.

As a first step in bringing Brazil's external accounts into balance in 1959, Brazil intends to limit its payments deficit in "convertible" and ACL currencies in 1958 to $200 million. To attain this result instructions have been issued to limit payments for preferential imports and capital service in these currencies strictly to the amounts specified in the Brazilian exchange budget for 1957 and to reduce gradually the amounts for auction of U.S. and ACL dollars. Starting in June 1958, the amounts of U.S. dollars auctioned will be reduced from the current weekly level of $4 million by $250,000 each month until a level of $2.5 million per week is reached in November. Should the fiscal, credit and other exchange measures mentioned in this letter reduce import demand, amounts auctioned will be reduced so as to maintain a minimum dollar agio for the general import category of Cr$120 per U.S. dollar. This policy will be followed until Brazil restores its lines of credit with the New York banks. Auctions of ACL currencies will be correspondingly reduced from their current weekly level of ACL$3.2 million by ACL$100,000 each month starting in June until a level of ACL$2.6 million per week is reached in November.

As a second and more fundamental step in attaining external equilibrium in 1959, the Government of Brazil proposes to adopt the following exchange measures to inhibit imports and encourage new exports. These new measures result in a considerable simplification in Brazil's exchange system and are in line with our long-range goal of exchange rate unification. On the export side, Brazil proposes to eliminate its present system of four export categories plus special arrangements and bonuses, including "symbolic purchases and sales". Instead, the Government intends to maintain the present exchange rate arrangements for coffee and cacao and cacao products, except that the present premia to coffee for quality will be eliminated. All other exports will be subject to an effective rate of exchange of Cr$100 per U.S. dollar. On the import side, the auction mechanism will be maintained in its present form with no new specific auctions being introduced. All capital goods imports and payments under suppliers' credits will be effected at the auction rate for general category imports. Other imports receiving privileged treatment (including newsprint) will be incorporated into a single group to which an effective rate of exchange of Cr$100 per U.S. dollar will apply. All invisible and capital transactions now receiving privileged treatment will also be subject to the rate of Cr$100 per U.S. dollar.

The exchange system outlined above is expected to yield substantial profits. In order to ensure the efficacy of the credit and fiscal measures outlined below, the existing balance of the "agio account" together with gross agio receipts minus payments to exporters under the export arrangements described above will be sterilized (except for the financing of any stockpiling in conformity with the coffee policy described in this letter). In addition, Brazil intends to deposit in a special blocked account the local currency counterpart of any foreign financial assistance, including all drawings on the International Monetary Fund, received during 1958 in connection with this stabilization plan. The counterpart to be so deposited will be calculated on the basis of the average dollar auction rate of the week preceding the actual receipt of this foreign assistance.

To bring the internal economy into balance and thereby reduce pressure on the balance of payments, the Government of Brazil is adopting new measures in the fields of credit, fiscal and coffee policy. With regard to the last, the most serious financial problem facing Brazil results from the large potential surplus of coffee for 1958-59. Exportable production of coffee in Brazil is estimated to reach 23 million bags; it is intended, however, to limit exports to 15 million bags. Neither the Government nor the banking system can afford to finance this potential surplus without grave consequences for our internal economic stability. The Government, therefore, has adopted the following coffee program for the year 1958-59: (1) a surrender will be required by the producer at the railhead to the Coffee Institute for conversion to fertilizer of all coffee below a certain specified grade, representing approximately 10 per cent of the crop; (2) a surrender at the railhead to the Institute will be required of ___ 1/ per cent of each shipment for stockpiling or sale for domestic consumption;

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(3) the producer will be compensated on these surrenders only for his proportionate share of sales to the domestic market; and (4) the Coffee Institute will purchase for stockpiling only the difference between the amount actually exported and 15 million bags if exports fall short of the latter figure.

The fiscal position of the Government is second only to the coffee situation as a problem facing Brazil. Based on existing authorizations and obligations, a cash deficit of Cr$47 billion was estimated for 1958. However, at the request of the Government, Congress has adopted a measure ensuring that in no circumstances will government borrowing from all sources exceed Cr$20 billion in 1958 for financing the budgetary and extra-budgetary cash deficits. In accordance with this Congressional measure, the Government has adopted the following program. Expenditures totaling Cr$15 billion have been cut from the original budget of Cr$125 billion; a further Cr$13 billion of expenditures will be postponed and extra-budgetary expenditures will be limited to Cr$23 billion. Cash expenditures, thus, will be held to Cr$135 billion while revenues are currently estimated at Cr$115 billion. For 1959 the Government proposes to attain fiscal balance. To attain this goal the Government has submitted to Congress a budget for 1959 with expenditures and revenues balanced at Cr$125 billion.

With regard to credit policy, the Brazilian Government has taken the following measures:

(1) Bank of Brazil credit to the private nonbanking sector is subject to a graduated ceiling so that by the end of 1958 these credits will be only 5 per cent above the end of 1957 level.

(2) Bank of Brazil credit to states and municipalities will be limited to the level outstanding at the end of 1957.

(3) The level of Bank of Brazil rediscounts and other credits to commercial banks shall not exceed as of the end of each month in 1958 the level outstanding as of the end of the corresponding month of 1957.

(4) The central bank rediscount rate has been increased from the previous 6 per cent to 8 and 10 per cent, depending on the type of paper presented for rediscount.

(5) Legislation has been introduced in Congress raising the maximum legal reserves to 12 and 24 per cent for time and demand deposits, respectively--the present legal maxima are 6 and 14 per cent. Upon enactment of the new legislation, the Government will increase bank reserve requirements to the legal maxima and require commercial banks to deposit 50 per cent of the current increment in deposits to legal reserves until the new reserve requirements are satisfied.

(6) Should currency issue exceed Cr$98 billion at any time in the second half of 1958, the necessity of taking supplementary measures to the above will be considered.

If between May ___ and December 31, 1958, the limits described in this letter on the cash deficit of the Government and borrowing from the banking system, Bank of Brazil credit to the private nonbanking sector and to states and municipalities, Bank of Brazil rediscounts and other credits to commercial banks, currency issue, exchange sales in the auction markets, use of ágio accounts, or if between July 1, 1958 and June 30, 1959 the limit on purchases of coffee by the Coffee Institute are exceeded, Brazil will consult with the Fund and agree with it on the terms on which further drawings may be made. Brazil will consult the Fund and reach agreement before December 31, 1958, on limits for 1959 for the items referred to in the preceding sentence, it being understood as stated above that the 1959 budget will be in balance. The limits thus agreed for 1959 will be substituted for the former limits for the purposes of the foregoing assurance and the stand-by arrangement on and after January 1, 1959.

We will provide the Fund with all the data and information it needs to appreciate Brazil's economic position and future progress. We will also be glad to have a Fund official resident in Brazil to facilitate the operation of the stand-by arrangement and visits from Fund officials to review our situation at such times as you may deem appropriate.

Sincerely yours,

Dr. Jose Maria Alkmim
Minister of Finance _____

Dr. Sebastiao Paes de Almeida
President of the Bank of Brazil _____

Dr. J. J. Cardozo de Mello Neto
Executive Director of the
Superintendency of Money and Credit _____

May 2, 1958

Comparison of Program Proposed by Fund With that of Brazilian Government

(All figures in billions of cruzeiros)

	Brazilian Government Program	Program Proposed by Fund
I. Fiscal Policy		
1. Reduction in 1958 budgeted expenditures	10	15
2. Postponement actual cash expenditures	7	13
3. Ceiling on extra-budgetary expenditures	No ceiling	23
4. Ceiling on actual cash deficit	No ceiling; estimate of 25	20
5. Ceiling on government borrowing from banking system	No ceiling; estimate of 25	20
6. Ceiling on total budget expenditures in 1959	—	125
7. 1959 budgetary cash deficit	—	Zero
II. Credit Policy		
1. Ceiling on Bank of Brazil credit to private nonbanking sector	Ceiling set at level outstanding 12-31-57; no indication whether ceiling applies for all of 1958	End of 1958 level shall not exceed end of 1957 level by more than 5%; permissible expansion to be allocated by quarters
2. Ceiling on Bank of Brazil credit to states and municipalities	No ceiling	Ceiling set for 1958 at level outstanding 12-31-57
3. Ceiling on Bank of Brazil rediscounts and other credits to commercial banks	Level at end of each month in 1958 should not exceed level as of end of same month of previous year	Same as Brazilian program
4. Central bank rediscount rate	Increase from 6 to 8 and 10%	Same as Brazilian program
5. Legal reserve requirements for private commercial banks	From 14 to 24% against demand deposits; from 6 to 12% against time deposits; 50% increment in deposits to be deposited to legal reserves until new reserve ratios achieved	Same as Brazilian program

Comparison of Program Proposed by Fund
With that of Brazilian Government (continued)

(All figures in billions of cruzeiros)

	Brazilian Government Program	Program Proposed by Fund
III. Monetary Policy		
1. Ceiling on currency issue	No ceiling	Additional measures to be taken if currency issue exceeds Cr$98 billion any time in second half of 1958
IV. Exchange System		
1. Export rates		
Coffee	Cr$37.06	Cr$70
Cacao and products	Cr$43.06	Cr$70
Other	Symbolic purchases and sales (i.e. ad hoc rates resulting from crossing administratively determined appropriate internal price with world market price)	Cr$100
2. Import rates		
Preferential imports	Cr$60	Cr$100
General category imports	General auction market	Same as Brazilian program
Special category imports	Special auction market	
Capital goods imports of national interest	Cr$60	General auction market
3. Free market for capital and invisibles	No change in existing system	No change in existing system
V. Exchange Budget		
1. Preferential imports	—	Strictly limited to amounts specified in official exchange budget
2. Auction market ceiling on sales of U.S. dollars	No ceiling	Current level $16 million per month to be reduced by $1 million per month until level of $11 million per month reached

Comparison of Program Proposed by Fund
With that of Brazilian Government (continued)

(All figures in billions of cruzeiros)

	Brazilian Government Program	Program Proposed by Fund
V. Exchange Budget (con't)		
3. Auction market ceiling on sales of ACL dollars	No ceiling	Current level of $12.8 million to be reduced by $400,000 per month until level of $10.4 million per month reached

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April 28, 1958

2nd draft

Aide Memoire

1. The Brazilian authorities have approached the Fund with respect to the possibility of obtaining financial assistance. Staff discussions have been held with the Brazilian representative, and he has outlined in some detail the financial program which the Brazilian Government is prepared to adopt to cope with the present situation. It is clear that the Brazilian Government is now showing greater awareness of the seriousness of its financial situation.

2. The staff has reviewed the proposed stabilization program in the light of the current Brazilian situation. It is felt that the Brazilian proposals require further strengthening if they are to achieve the objectives of containing the Brazilian inflation, strengthening the balance of payments, and improving the exchange system. It is felt desirable to divide up the problem into two phases: A minimum program for 1958-1959, and longer-run measures to be taken as soon as possible. It will be noted that the minimum program outlined below incorporates some features of proposals already put forward by the Brazilian authorities.

3. The chief features of the minimum program for 1958 are the following:

a. The deficit in the 1958 budget of the Federal Government is to be reduced to below Cr$20 billion through curtailment and postponement of expenditures. As a complementary measure, Bank of Brazil and other private bank lending to the Government is to be restricted to Cr$20 billion.

b. In addition, ceilings are to be placed on Bank of Brazil credits to the private non-banking community limiting the increase to 5 per cent in 1958, on loans to state and municipal governments, and on Bank of Brazil rediscounting of commercial bank paper. The rediscount rate is to be raised from 6 per cent to 8 and 10 per cent depending on the type of loan involved. The maximum legal reserve ratios of commercial banks are to be approximately doubled in line with the legislation now pending in the Brazilian Congress, and a 50 per cent marginal reserve requirement is to be imposed on new deposits until banks acquire the reserve ratios established in the legislation.

c. The necessary decrees will be issued providing for treatment of coffee exports in 1958-59 in line with the proposals Brazil has made to the Fund.

d. Revisions should be made in the exchange system to ensure the success of the domestic stabilization measures and to create a basis for attaining external balance. The individual rate treatment for exports should be eliminated, the wide spread among rates for imports substantially reduced and the average exchange rate depreciated. The new exchange system will be as follows:

(i) Privileged treatment imports will be placed in one category subject to an exchange rate of <u>at least</u> Cr$100 per U.S. dollar. Total imports in this category will be subject to the ceiling now provided in the exchange budget. The Government will obtain the necessary legislation to eliminate the preferential treatment for imports of newsprint.

(ii) All other imports will be divided between a general category and a special category, and exchange for these will continue to be auctioned as under the existing system. Ceilings will be established on the amounts of U.S. dollars and ACL dollars which can be auctioned in these markets and these will be gradually

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reduced during 1958 until monthly sales do not exceed $10 million in U.S. dollars and $11 million in ACL dollars. A floor level for the agio for general category imports will be established at Cr$120 per U.S. dollar.

(iii) Capital goods imports and payments for imports under suppliers credits will receive the exchange rate for general category imports.

(iv) All exports are to be placed in two categories—one for coffee, cocoa and cocoa products with an effective rate of Cr$70 or less per U.S. dollar, and the other for all other exports with a rate of Cr$100 per U.S. dollar.

(v) The profits resulting from the spread between the new Bank of Brazil buying and selling rates will be sterilized except for any sum necessary to finance a decline in coffee exports below 15 million bags in 1958-59.

4. The Government will begin a review of the budget for 1959. The primary goal will be to obtain budgetary equilibrium in 1959. With this end in view, the Government will instruct the Bureau of the Budget to limit 1959 expenditures to Cr$125 billion. In addition to cutting expenditures, especially for military purposes and public investment, a plan should be made for any tax increases necessary to ensure that budget expenditures can be financed from current revenues in 1959. It is assumed that a program covering the same areas of agreement as the 1958 program will be discussed and put into effect for 1959.

5. It should be emphasized that the program outlined above is regarded as the minimum to achieve an end to the inflation and thus provide the basis for sound and steady growth and eliminate the balance of payments difficulties which hamper Brazil internally and externally. The parts of the program are interrelated and interlocked. While some of the features of the program may be modified slightly, offsetting measures will be necessary in other fields to avoid failure of the program.

6. Further steps of a longer-run nature are necessary if stabilization is to become firmly established and a unitary rate system achieved. The most important of these longer-run measures are the following:

a. The financial relations existing between the Federal and State Governments should be reviewed and steps should be taken to permit the imposition of export taxes in excess of 5 per cent.

b. A Central Bank with effective tools for implementing monetary policy is essential.

c. Measures are needed to permit tax legislation to be enacted and become effective in the same fiscal year.

7. On the basis of the above program, it is felt that the Fund could agree to a stand-by of $37.5 million with drawings under it being phased over a given period of time.

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DRAFT

Brazil

2nd draft

Dear Mr. Jacobsson:

Currently Brazil is suffering from severe balance of payments difficulties. International reserves are at present low and lines of credit with New York banks are virtually exhausted. The recent deterioration has been associated with speculation in the coffee market stimulated by the potential emergence of a large excess supply. However, the problems derive more fundamentally from a sustained credit expansion based on growing fiscal imbalance. To cope with this situation, the Government of Brazil plans to take measures to bring the internal economy into balance and to adopt an exchange reform and other exchange measures to limit the deficit in Brazil's external accounts in 1958 and to bring these accounts into balance in 1959.

To undertake these measures in view of the present exchange situation, Brazil needs the assurance of financial support from the Fund. The Government of Brazil, therefore, requests through us a stand-by arrangement with the Fund for the period of one year. Brazil would like to have the right to purchase the currencies of other members from the Fund in exchange for its own currency so long as such purchases do not bring the Fund's holding of Brazilian currency above their present level increased by the equivalent in Brazilian cruzeiros of US$37.5 million. Brazil is also requesting additional financial support from the U.S. Government. Brazil intends to restrict any purchases that it may make under the stand-by arrangements to limited installments.

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As a first step in bringing Brazil's external accounts into balance in 1959, Brazil intends to limit its payments deficit in "convertible" and ACL currencies in 1958 to $200 million. To attain this result instructions have been issued to limit payments for preferential imports and capital service in these currencies strictly to the amounts specified in the Brazilian exchange budget for 1957 and to reduce gradually the amounts for auction of U.S. and ACL dollars. Starting in June 1958, the amounts of U.S. dollars auctioned will be reduced from the current weekly level of $4 million by $250,000 each month until a level of $2.5 million per week is reached in November. Should the fiscal, credit and other exchange measures mentioned in this letter reduce import demand, amounts auctioned will be reduced so as to maintain a minimum dollar agio for the general import category of Cr$120 per U.S. dollar. This policy will be followed until Brazil restores its lines of credit with the New York banks. Auctions of ACL currencies will be correspondingly reduced from their current weekly level of ACL$3.2 million by ACL$100,000 each month starting in June until a level of ACL$2.6 million per week is reached in November.

As a second and more fundamental step in attaining external equilibrium in 1959, the Government of Brazil proposes to adopt the following exchange measures to inhibit imports and encourage new exports. These new measures result in a considerable simplification in Brazil's exchange system and are in line with our long-range goal of exchange rate unification. On the export side, Brazil proposes to eliminate its present system of four expert categories plus special arrangements and bonuses. Instead, two export categories are to be established and all other special arrangements will be abolished. The first category will include coffee, cocoa and cocoa products

and will receive an effective rate of exchange of Cr$70 per U.S. dollar. The other category will include all other products and will receive an effective rate of exchange of Cr$100 per U.S. dollar. On the import side, the auction mechanism will be maintained in its present form with no new specific auctions being introduced. All capital goods imports and payments under suppliers' credits will be effected at the auction rate for general category imports. Other imports receiving privileged treatment, however, will be incorporated into a single group to which an effective rate of exchange of Cr$100 per U.S. dollar will apply. All invisible and capital transactions now receiving privileged treatment will also be subject to the rate of Cr$100 per U.S. dollar.

The exchange system outlined above is expected to yield substantial profits. In order to ensure the efficacy of the credit and fiscal measures outlined below, the net agios obtained will be sterilized except for the financing of any stockpiling in conformity with the coffee policy described in this letter. In addition, Brazil intends to deposit in a special blocked account the local currency counterpart of any foreign financial assistance, including all drawings on the International Monetary Fund, received during 1958 in connection with this stabilization plan. The counterpart to be so deposited will be calculated on the basis of the average dollar auction rate of the week preceding the actual receipt of this foreign assistance.

To bring the internal economy into balance and thereby reduce pressure on the balance of payments, the Government of Brazil is adopting new measures in the fields of credit, fiscal and coffee policy. With regard to the last, the most serious financial problem facing Brazil results from the large potential surplus of coffee for 1958-59. Exportable production of coffee in Brazil is estimated to reach 23 million bags; it is intended, however, to

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limit exports to 15 million bags. Neither the Government nor the banking system can afford to finance this potential surplus without grave consequences for our internal economic stability. The Government, therefore, has adopted the following coffee program for the year 1958-59: (1) a surrender will be required by the producer at the railhead to the Coffee Institute for conversion to fertilizer of all coffee below a certain specified grade, representing approximately 10 per cent of the crop; (2) a surrender at the railhead to the Institute will be required of __ 1/ per cent of each shipment for stockpiling or sale for domestic consumption; (3) the producer will be compensated on these surrenders only for his proportionate share of sales to the domestic market; and (4) the Coffee Institute will purchase for stockpiling only the difference between the amount actually exported and 15 million bags if exports fall short of the latter figure.

The fiscal position of the Government is second only to the coffee situation as a problem facing Brazil. Based on existing authorizations and obligations, a cash deficit of Cr$47 billion was estimated for 1958. The Government of Brazil, however, has adopted an economy program to limit this deficit to Cr$20 billion. The reduction in the budgetary cash deficit to Cr$20 billion will be achieved by cutting Cr$15 billion of expenditures from the original budget of Cr$140 billion, by postponing Cr$13 billion of cash expenditures, and by limiting extra-budgetary expenditures to Cr$23 billion. Cash expenditures, thus, will be held to Cr$135 billion while revenues are currently estimated at Cr$115 billion. Should revenues fall short of this estimate or because of special circumstances new budgetary authorization

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1/ The percentage to be inserted here will be that required to reduce the supply available for export to 15 million bags.

CONFIDENTIAL

have to be requested, the Government will make further expenditure cuts against existing authorizations or obligations to limit the cash deficit in 1958 to Cr$20 billion. The Government will also limit the increase in its indebtedness to the banking system to Cr$20 billion. This is a considerable reduction from 1957 when the Government's indebtedness increased by Cr$39 billion. For 1959 the Government proposes to attain fiscal balance. To attain this goal the Budget Bureau (DASP) has been instructed to set an over-all ceiling of Cr$125 billion in budgetary appropriations in the Government's request to Congress for 1959 and to propose whatever tax measures are necessary.

With regard to credit policy the Brazilian Government has taken the following measures:

(1) Bank of Brazil credit to the private nonbanking sector is subject to a graduated ceiling so that by the end of 1958 these credits will be only 5 per cent above the end of 1957 level.

(2) Bank of Brazil credit to states and municipalities will be limited to the level outstanding at the end of 1957.

(3) The level of Bank of Brazil rediscounts and other credits to commercial banks shall not exceed as of the end of each month in 1958 the level outstanding as of the end of the corresponding month of 1957.

(4) The central bank rediscount rate has been increased from the previous 6 per cent to 8 and 10 per cent, depending on the type of paper presented for rediscount.

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(5) Legislation has been introduced in Congress raising the maximum legal reserves to 12 and 24 per cent for time and demand deposits, respectively--the present legal maxima are 6 and 14 per cent. Upon enactment of the new legislation, the Government will increase bank reserve requirements to the legal maxima and require commercial banks to deposit 50 per cent of the current increment in deposits to legal reserves until the new reserve requirements are satisfied.

(6) Should currency issue exceed Cr$98 billion at any time in the second half of 1958, the necessity of taking supplementary measures to the above will be considered.

If between May _____ and December 31, 1958, the limits described in this letter on the cash deficit of the Government and borrowing from the banking system, Bank of Brazil credit to the private nonbanking sector and to states and municipalities, Bank of Brazil rediscounts and other credits to commercial banks, currency issue, exchange sales in the auction markets, use of ágio accounts, or if between July 1, 1958 and June 30, 1959 the limit on purchases of coffee by the Coffee Institute are exceeded, Brazil will consult with the Fund and agree with it on the terms on which further drawings may be made. Brazil will consult the Fund and reach agreement before December 31, 1958, on limits for 1959 for the items referred to in the preceding sentence and the limits thus agreed for 1959 will be substituted for the former limits for the purposes of the foregoing assurance and the stand-by arrangement on and after January 1, 1959.

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We will provide the Fund with all the data and information it needs to appreciate Brazil's economic position and future progress. We will also be glad to have a Fund official resident in Brazil to facilitate the operation of the stand-by arrangement and visits from Fund officials to review our situation at such time as you may deem appropriate.

Sincerely yours,

Dr. Jose Maria Alkmin
Minister of Finance _____

Dr. Sebastiao Paes de Almeida
President of the Bank of Brazil _____

Dr. J. J. Cardoso De Mello Neto
Executive Director of the
Superintendency of Money and Credit _____

The Managing Director April 24, 1958

Western Hemisphere, Exchange Restrictions and Legal Departments

Brazil--Proposed Basis for Negotiations on Use of Fund Resources

There is submitted below for your consideration a recommended Fund position with respect to Brazil's request for financial assistance. It is felt that the proposed program would contain the Brazilian inflation, strengthen their balance of payments and improve their exchange system.

1. Amount and basis of financial assistance

The Brazilian Government is requesting the following assistance from the Fund:

(a) a third tranche drawing of $37.5 million, and

(b) deferment for a period of probably three years of repurchase obligations maturing in 1958 to an amount of $37.5 million ($17.25 million due July 1, 1958 and $20.25 million due December 31, 1958). This drawing will have been outstanding for five years.

Assuming that Brazil agrees to the financial program proposed below, it is recommended that the form of Fund assistance be that of the normal stand-by arrangement with the right to purchase from the Fund member country currencies, as long as such purchases do not increase the Fund's holdings of Brazilian cruzeiros above its present level (i.e., 125 per cent of quota) increased by the equivalent in Brazilian cruzeiros of US$37.5 million. It is also recommended that drawings on the Fund be phased out so that the Fund's holdings of Brazilian cruzeiros do not increase by more than the equivalent of US$5 million within any thirty day period. It should also be provided that if Brazil does not observe its commitments, it shall not be entitled to draw further amounts without consulting the Fund and agreeing on the terms for further drawings.

A stand-by arrangement of the foregoing type has two clear advantages. First, the Fund's financial assistance would be extended over a minimum period of seven months during which the Fund would have the opportunity to measure Brazilian progress against the specific commitments undertaken as a part of the stand-by. Second, a stand-by in terms of a given level of Fund holdings of cruzeiros would permit an automatic three-year extension of Brazil's repurchase obligations in 1958 without explicitly breaking the five-year maximum period for repayment of Fund drawings and would avoid the necessity for a Board decision postponing the repurchase obligation.

2. Financial policy undertakings of the Brazilian Government as part of a stand-by arrangement

In consideration of Fund financial assistance as indicated in paragraph 1 above, it is recommended that the Fund obtain the following undertakings on the part of the Brazilian Government:

a. Budgetary policy. The Brazilian Government has indicated that it plans an economy program which it estimates might reduce the cash deficit for 1958 to Cr$25 billion. Although this deficit is much smaller than that of 1957, Cr$41 billion, the staff believes that the cash deficit should not exceed Cr$20 billion, an amount equivalent to 15 per cent of cash expenditures. Moreover, the staff proposes that the Brazilian Government undertake a commitment that the cash deficit will be limited to Cr$20 billion with any shortfall of revenue or any new expenditures undertaken being offset by further cuts in expenditures under existing authorizations. The staff feels that keeping the fiscal program to Cr$20 billion should be an absolute minimum and not subject to negotiation.

The Brazilian and the staff proposals are outlined in the accompanying table. The staff feels that the larger cuts in the government proposals on extrabudgetary items are unrealistic as these items are not really subject to control. Also, the staff proposes an increase rather than a net reduction in deferred payments (restos a pagar). The increase would come through transferring authorizations from the current year to future years.

b. Credit policy

(1) Credit to the Government. Government borrowing from the Bank of Brazil and/or the private commercial banks shall not exceed during 1958 a net amount of Cr$20 billion. This would represent a reduction in government borrowing in 1958 of approximately Cr$19 billion, from Cr$39 billion in 1957 to Cr$20 billion in 1958.

(2) Credit to the private sector. The measures for restraint in credit to the private sector which the Brazilian Government proposes to take appear adequate. These are:

(i) The Brazilian Government proposes to limit Bank of Brazil credit to the private non-banking sector during 1958 to a level not in excess of the outstanding level as of the end of 1957 (i.e., Cr$92 billion). In the staff view, this may not be realistic and may lead to an early abandonment of the credit ceiling. It is, therefore, proposed that ceilings be fixed which are graduated over the year to permit an end-of-year level 5 per cent above the end of 1957 level, i.e., Cr$96.5 billion. This would represent substantial progress over previous years when Bank of Brazil credit expansion to the private sector averaged about 25 per cent per annum.

	1957 Actual	Government economy plan for 1958 budget	Staff's proposal for 1958 Budget
I. Expenditures (gross)			
(a) expenditures against budgetary appropriations	112.9	130.00	125
(b) expenditure against credits transferred from the previous years	2.2		2
(c) expenditures against new credits obtained during the year	3.6		1 (This will be limited only to extraordinary cases)
(d) loans to states and municipalities	3.5	10.6	2
(e) expenditure under Article 48	11.8		10 (including interest payments to Bank of Brazil)
(f) other extrabudgetary expenditure	0.2		—
(g) liquidation of floating debt	7.1	8.0	8
Total of gross expenditures	141.3	148.6	148
(h) postponement of expenditures (-)	14.7	6.6	13
Total of net cash expenditures	126.6	142.0	135
II. Revenue collections	85.5	117.0	115
III. Cash deficit	41.1	25.0	20

(ii) The level of Bank of Brazil rediscounts and other credits to commercial banks shall not exceed as of the end of each month in 1958 the level outstanding as of the end of the corresponding month of the previous year.

(iii) The central bank rediscount rate is to be increased from the present 6 per cent to 8 and 10 per cent, depending on the nature of the paper presented for rediscount.

(iv) Legislation has been introduced in Congress raising the maximum legal reserves to 12 and 24 per cent for time and demand deposits, respectively--the present legal maxima are 6 and 14 per cent. Upon enactment of the new legislation, the Government will increase bank reserve requirements to the legal maxima and require commercial banks to deposit 50 per cent of the current increment in deposits to legal reserves until the reserve requirements are satisfied.

c. Coffee policy.* The Brazilian Government has indicated that its policy with respect to the incoming 1958-59 coffee crop will be that any withholding of surplus coffee from the international market will be independent of bank or government financing. In accordance with this policy, Brazil proposes to prevent the export of approximately 40 per cent of the marketable production. This would reduce exportable supply from approximately 23 million bags to approximately 15 million bags, which the staff considers not unrealistic. The 40 per cent retention would be separated into two components: (1) a surrender by the producer at the railhead to the Coffee Institute of all coffee below a certain specified grade for destruction, representing approximately 10 per cent of the crop, and (2) a surrender to the Institute at the railhead of 30 per cent of each shipment for stockpiling or sale for domestic consumption. The producer would be compensated only for his proportionate share of the sales to the domestic market. Should the external market demand fall short of 15 million bags, the Coffee Institute might purchase the difference between the amount actually exported and 15 million bags.

The staff feels that this program is satisfactory from the financial point of view. The Brazilian Government should be required to give firm commitments on its coffee stockpiling program for the coming crop year. This is the most serious, single inflationary problem in the Brazilian economy. Outright government purchase or warehouse financing of the expected surplus would cost nearly Cr$30 billion. The Government's coffee stockpiling program is so important in terms of the near-term financial situation of Brazil that the Fund should withhold approving any financial assistance until the above coffee program has been adopted and announced.

d. Exchange profits--agios account. Exchange profits under the present Brazilian exchange system and the system as modified by the staff proposals below constitute an important monetary absorption factor. Exchange profits under the system proposed below would probably yield about Cr$30 billion compared with Cr$17 billion in 1957. Control of expenditures from this account

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* The Brazilians have asked that the proposed coffee plan be considered as top secret.

should constitute an integral part of any over-all stabilization plan. Accordingly, it is proposed that a commitment be obtained that the net agios be sterilized except for financing of any stockpiling in conformity with the coffee policy described in the previous paragraph. In particular, the Brazilian Government should be requested to agree to the sterilization of the local currency proceeds of any foreign financial assistance received during 1958 from the IMF or other sources in connection with the stabilization plan. This can be accomplished by debiting the agios sub-account entitled "Reserve Fund for Exchange Losses", with an amount in cruzeiros equivalent to the amount of foreign assistance in dollars multiplied by the average auction rate for "general category" imports in the month preceding the actual utilization of the foreign assistance.

e. Exchange system. The financial program which has been submitted to the Fund by the Brazilian Government does not contemplate any changes in the exchange system other than a recalculation of the "cost of exchange" which is to apply to preferential imports (i.e., the present rates of Cr$51.32 and Cr$53.82 per dollar would be moved to a rate of about Cr$60). In the opinion of the staff, although internal measures to end the inflation would make it possible to achieve domestic price stability, they would not in themselves be sufficient to assure balance of payments equilibrium, particularly in view of Brazil's growing debt service and import requirements. Accordingly, the staff considers changes in the exchange system as an essential part of a stabilization effort. This will constitute the most difficult area of negotiations with Brazil, but the staff feels that it is essential to obtain some reform of the exchange system as part of Fund financial assistance.

The present main import arrangements include (1) exchange auctions for private imports not benefiting from privileged treatment (at present about $600 million annually). The recent effective exchange rates were about Cr$170 per dollar for general category imports and about Cr$380 per dollar for special category imports. (2) A privileged treatment involving a rate of Cr$51.32 per dollar for imports of consumption goods and capital goods recognized as essential to economic development and the national security (about $280 million annually); (3) a privileged treatment involving a rate of Cr$53.82 per dollar for petroleum imports (about $300 million annually); and (4) a privileged treatment involving a very appreciated rate (about Cr$22) for imports of newsprint (about $40 million annually).

There is also a free market rate for invisibles and capital, which at present is about Cr$120 per dollar.

The staff proposes that the auction mechanism be maintained as it is at present, for the time being. Imports receiving a privileged treatment, however, would be included in one single group to which an effective rate of at least Cr$100 per dollar would apply. There may arise a legal difficulty in the case of newsprint. Should it not be possible to overcome this difficulty, the present arrangement involving a gradual depreciation of the rate would continue to operate. All invisible and capital transactions now receiving privileged treatment would be subject to an effective rate of Cr$100 per dollar.

The present treatment given to Brazilian exports is the result of various arrangements superimposed on the established rates for the four export categories and presents the following characteristics: Coffee exports receive Cr$37.06 per dollar plus a bonus which varies in proportion with the foreign price, plus an undetermined amount of local currency resulting from a tolerated underinvoicing of exports and the negotiation in the free market of that portion of exchange not surrendered to the authorities. All considered, the present effective rate is close to Cr$50 per dollar. Cocoa and cocoa products receive Cr$43.06 per dollar. All other products in effect receive through the so-called symbolic purchase plan (Tosta-Filho plan) varying amounts of cruzeiros which correspond to exchange rates of Cr$67 to Cr$90 per dollar.

The staff proposes that only two export categories be established and all other special arrangements be abolished. One category would include coffee, cocoa, and cocoa products and would receive effective exchange of Cr$70 per U.S. dollar. However, the staff would not insist on this devaluation for the coffee rate if the Brazilian Government prefers a less depreciated rate for coffee. The other category would include all other products and would receive an effective exchange rate of Cr$100 per U.S. dollar.

It is to be noted that all the proposed changes are possible under existing legislation.

f. Exchange budget. To limit Brazil's balance of payments deficit for 1958 in U.S. and ACL currencies to the amount specified in the Brazilian program, payments for preferential imports and capital service should be limited to the amounts specified in the Brazilian exchange budget, i.e. $104.1 million and ACL$133.7 million for preferential imports and US$174.2 million and ACL$49.4 million for capital service. Moreover, to bring payments in 1959 to levels within which balance in convertible currencies is possible, amounts auctioned in convertible currencies should be reduced from the current weekly level of $4 million by $250,000 each month starting in June until a level of $2.5 million per week is reached in November. This would restore the monthly level of exchange sales to the level prevailing prior to the Government's attempt to appreciate the auction market rate--i.e., $10 million. Should the fiscal, credit, and other exchange measures of the program reduce import demand, amounts auctioned should be reduced correspondingly as the dollar agio for the general category declines and in no case should the agios for the general category be permitted to fall below Cr$120 per U.S. dollar without an immediate reduction in the amount auctioned to bring the agio up to Cr$120. This policy should be continued until Brazil's lines of credit with the New York banks are fully restored. To attain a 1959 balance in ACL payments, auctions of ACL currencies should correspondingly be reduced from their current weekly level of ACL$3.2 million by ACL$100,000 each month starting in June until a level of ACL$2.6 million per week is reached in November. This would restore the monthly level of ACL currencies offered for auction to $11 million per month, the level prevailing in mid-1956 when the Government began to increase the offering of currencies in the auction market.

g. Suppliers' credit. In view of the heavy debt service maturing in the next several years, measures are needed to maintain the medium-term debt burden of Brazil within the country's capacity to pay. The increase in Brazil's medium-term indebtedness to foreign suppliers has been spurred on by a preferential rate of Cr$51.32 per dollar and the issue of exchange priority certificates. The staff's proposal on the exchange system envisages the elimination of preferential exchange rate treatment for these capital goods. This should help considerably in curbing imports against medium-term suppliers' credits. The Brazilian officials have also informed us that SUMOC is now contemplating adopting measures to severely restrict the incurring of medium-term credits, particularly obligations which would further burden the country's debt service in the next three years. The letter of commitment from the Brazilian Government should as a minimum include a statement of the policy to be pursued with respect to new medium-term suppliers' credits.

3. Other staff remarks

(a) With respect to the timing of the negotiations, it should be noted that Brazil, pending conclusion of its negotiations with the IMF and U.S. Government, has concluded a US$30 million, 120-day loan (against the pledge of coffee as collateral) with the Chase-Manhattan Bank. The staff also understands that Brazil is negotiating similar loans up to another US$30 million with other U.S. banks. Conclusion of an arrangement with the Fund, therefore, is not urgent and final conclusion of a stand-by arrangement with Brazil should await whatever period is necessary for Brazil to give firm assurances, particularly as concerns its policy with respect to the expected huge 1958-59 coffee surplus.

(b) Fund financial assistance alone is not sufficient to meet the payments problem which Brazil faces in 1958. Brazil, therefore, is also negotiating with the U.S.Government. Since the financial cooperation of the U.S.Government probably will be related to the program agreed to between Brazil and the Fund, there should be some coordination of views with respect to the Brazilian problem prior to our making definite counterproposals to the Brazilian Government.

(c) An important problem will be that of follow-up on the progress of the agreed stabilization plan. The staff considers that it is essential that a Fund representative be stationed in Brazil from the initiation of the plan to mid-1959 as a minimum. The role of the Fund representative would be to report to the Managing Director on the progress of the stabilization program and maintain liaison between the Fund staff and the Brazilian Government. The person designated would not function in the capacity of technical assistant to the Brazilian Government as in certain other countries.

(d) The staff also considers that it is essential that there be further discussions in Rio de Janeiro before the stand-by arrangement is finalized. It is important that the responsible Brazilian officials are fully aware of the plan and agree that the plan is desirable and feasible. It would be most desirable that the proposed Fund representative to Brazil participate in these discussions.

Confidential

The Managing Director

April 24, 1958

J. Del Canto, WHD

Brazil, Haiti, and Colombia

1. Brazil:

Mr. Friedman and I met with Dr. Paranagua and Mr. C. Ribeiro yesterday from 5:30 PM to 6:30 PM to impress upon our friends that they should drop their plans to adopt a discriminatory prohibition of certain imports for the dollar and ACL area in favor of the bilateral countries.

The working party that has looked into the Brazilian program has completed its work and a memo is in process suggesting additional measures to be negotiated with Brazil that will improve the measures contemplated by Brazil and will give us a minimum plan that you might consider for financial assistance. We hope to submit this to you in the afternoon, and you might wish to consider calling a staff meeting later in the day, or some time Friday, at your convenience.

2. Haiti:

After the meeting with you yesterday, we spent an hour with the Haitian Delegation and we have scheduled a new business session for Friday at 9:30 AM. The group is leaving for New York over the weekend and I made appointments for them in New York with Chase Manhattan and National City Bank. They will be back Tuesday, at which time they hopefully expect an appointment with you in order to get your reaction to their program, embodied in the proposed letter-request. In the meantime I have informed Mr. Southard of what we are doing, with the hope that he can inform you before next Tuesday of tentative U.S. thinking on Haiti. I shall inform you of our Friday business meeting with the Haitian Delegation in due course and you might consider calling a staff meeting Monday, before you see the Haitians on Tuesday.

3. Colombia:

We have invited the Manager of the Central Bank of Colombia--and also the Governor of Colombia in the IMF--to have a technical meeting with the staff handling Colombia next Friday, April 25, at 3:00 PM. We hope to clear up then any questions concerning the Consultations Report and the recent measures adopted by Colombia. I suggested--with Mr. Paranagua's consent--to the Governor to attend the Board meeting when Colombia comes up for Board discussion (presumably next Wednesday), but unfortunately he will be in New York.

JDelCanto:arb

INTERNATIONAL MONETARY FUND

April 24, 1958

To: Jones
Friedman
Gold

Attached for your concurrence is a joint memorandum to Mr. Jacobsson recommending a basis for negotiations with Brazil on the use of Fund resources. Since we have promised the memorandum to Mr. Jacobsson by 4 p.m., we would appreciate your comments by 3 p.m.

J. Del Canto
Jorge Del Canto

Office Memorandum

DRAFT

TO : The Managing Director DATE: April 24, 1958

FROM : Western Hemisphere, Exchange Restrictions and Legal Departments

SUBJECT : Brazil--Proposed Basis for Negotiations on Use of Fund Resources

There is submitted below for your approval a recommended Fund position with respect to Brazil's request for financial assistance. If you agree, the plan outlined herein would serve as the basis for opening negotiations with Brazil.

1. Amount and basis of financial assistance

The Brazilian Government is requesting the following assistance from the Fund:

(a) a third tranche drawing of $37.5 million, and

(b) deferment for a period of probably three years of repurchase obligations maturing in 1958 to an amount of $37.5 million ($17.25 million due July 1, 1958 and $20.25 million due December 31, 1958).

Assuming that Brazil agrees to the financial program proposed below, it is recommended that the form of Fund assistance be that of the normal stand-by arrangement with the right to repurchase from the Fund member country currencies, as long as such purchases do not increase the Fund's holdings of Brazilian cruzeiros above its present level (i.e., 125 per cent of quota) increased by the equivalent in Brazilian cruzeiros of US$37.5 million. It is also recommended that drawings on the Fund be phased out so that the Fund's holdings of Brazilian cruzeiros do not increase by more than the equivalent of US$5 million within any thirty day period.

A stand-by arrangement of the foregoing type has two clear advantages. First, the Fund's financial assistance would be extended gradually over a period of seven months during which the Fund would have the opportunity to measure Brazilian progress against the specific commitments undertaken as a part of the stand-by. Second, a stand-by in terms of a given level of Fund holdings of cruzeiros would permit an automatic three-year extension of Brazil's repurchase obligations in 1958 without explicitly breaking the five-year maximum period for repayment of Fund drawings.

2. Financial policy undertakings of the Brazilian Government as part of a stand-by arrangement

In consideration of Fund financial assistance as indicated in paragraph 1 above, it is recommended that the Fund obtain the following undertakings on the part of the Brazilian Government:

a. Budgetary policy. The Brazilian Government plans to reduce expenditures for budgetary and extrabudgetary items envisaging a cash deficit for 1958 of Cr$25 billion. Although this deficit is smaller than that of 1957, Cr$41 billion, the staff believes that further reductions in cash expenditures can be made with an ensuing cash deficit estimated at Cr$20 billion. Moreover, the staff proposes that the Brazilian Government undertake to limit the cash deficit to Cr$20 billion whereby any new expenditures undertaken will be offset by further cuts in expenditures under existing authorizations.

The Brazilian and the staff proposals are outlined in the accompanying table. The staff feels that the larger cuts in the government proposals on extrabudgetary items are unrealistic as these items are not really subject to control. Also, the staff proposes an increase rather than a net reduction in the floating debt at this time. The increase would come through transferring authorizations from the current year to future years.

	1957 Actual	Government economy plan for 1958 budget	Staff's proposal for 1958 Budget
I. Expenditure (gross)			
(a) expenditure against budgetary appropriations	112.9	130.0	125
(b) expenditure against credits transferred for the previous years	2.2		2
(c) expenditure against net credits obtained during the year	3.6		1 (This will be limited only to extraordinary cases)
(d) loans to states and municipalities	3.5	10.6	2
(e) expenditure under Article 48	11.8		10 (including interest payments to Bank of Brazil)
(f) other extrabudgetary expenditure	0.2		—
(g) liquidation of floating debt	7.1	8.0	8
Total of gross expenditures	141.3	148.6	148
(h) additions to floating debt etc.	14.7	6.6	13
Total of net cash expenditures	126.6	142.0	135
II. Revenue collections	85.5	117.0	115
III. Cash deficit	41.1	25.0	20

(b) Credit policy

(1) Credit to the Government. Government borrowing from the Bank of Brazil and/or the private commercial banks shall not exceed during 1958 a net amount of Cr$20 billion. This would represent a reduction in government borrowing in 1958 of approximately Cr$19 billion, from Cr$39 billion in 1957 to Cr$20 billion in 1958.

(2) Credit to the private sector. The measures for restraint in credit to the private sector which the Brazilian Government proposes to take appear adequate. These are:

(i) The Brazilian Government proposes to limit Bank of Brazil credit to the private sector during 1958 to a level not in excess of the outstanding level as of the end of 1958 (i.e., Cr$92 billion). In the staff view, this may not be realistic and may lead to an early abandonment of the credit ceiling. It is, therefore, proposed that the ceiling be fixed at a level 5 per cent above the end of 1957 level, i.e., Cr$96.5 billion. This would represent substantial progress over previous years when Bank of Brazil credit expansion to the private sector averaged about 25 per cent per annum.

(ii) The level of Bank of Brazil rediscounts and other credits to commercial banks shall not exceed as of the end of each month in 1958 the level outstanding as of the end of the corresponding month of the previous year.

(ii) The Central Bank rediscount rate is to be increased from the present 6 per cent to 8 and 10 per cent, depending on the nature of the paper presented for rediscount.

(iv) Legislation has been introduced in Congress raising the maximum legal reserves to 12 and 24 per cent for time and demand deposits, respectively--the present legal maxima are 6 and 14 per cent.

Upon enactment of the new legislation, the Government will increase bank reserve requirements to the legal maxima and require commercial banks to deposit 50 per cent of the current increment in deposits to legal reserves until the reserve requirements are satisfied.

(c) Coffee policy. The Brazilian Government has indicated that its policy with respect to the incoming 1958-59 coffee crop will be to obtain any withholding of surplus coffee from the international market independent of bank or government financing. In accordance with this policy, Brazil proposes to impose taxes in kind on the producer of approximately 40 per cent. This would reduce exportable production from approximately 23 million bags to approximately 15 million bags. The 40 per cent tax would be separated into two components: (1) a surrender by the producer at the railhead to the Coffee Institute of all coffee below a certain specified grade for destruction, representing approximately 10 per cent of the crop, and (2) a surrender to the Institute at the railhead of 30 per cent of each shipment for stockpiling or sale for domestic consumption. The producer would be compensated only for his proportionate share of the sales to the domestic market. Should the market demand fall short of 15 million bags, the Coffee Institute might finance the difference between the amount actually exported and 15 million bags.

The Brazilian Government should be required to give firm commitments on its coffee stockpiling program for the incoming crop year. This is the most serious inflationary problem hanging over the Brazilian economy. Outright government purchase or warehouse financing of the expected surplus would cost about Cr$25 billion. The Government's coffee stockpiling program is so important in terms of the near-term financial situation of Brazil that the Fund may wish to withhold approving any financial assistance until a firm coffee program has been adopted and announced.

(d) Exchange profits--agios account. Exchange profits under the present Brazilian exchange system and the system as modified by the staff proposals below constitute an important monetary absorption factor. Exchange profits under the system proposed below would probably yield about Cr$30 billion. Control of expenditures from this account should constitute an integral part of any over-all stabilization plan. Accordingly, it is proposed that a commitment be obtained that the use of the agios account be reserved exclusively for two purposes: (1) payment of the normal export bonuses under the Brazilian exchange system, and (2) financing of any stockpiling in conformity with the coffee policy described in the previous paragraph. It is also proposed that the Brazilian Government be requested to agree to the sterilization of the local currency proceeds of any foreign financial assistance received during 1958 from the IMF or other sources in connection with the stabilization plan. This can be accomplished by debiting the agios sub-account entitled "Reserve Fund for Exchange Losses", with an amount in cruzeiros equivalent to the amount of foreign assistance in dollars multiplied by the average auction rate for "general category" imports in the month preceding the actual utilization of the foreign assistance.

(e) Exchange system. The financial program which has been submitted to the Fund by the Brazilian Government does not contemplate any changes in the exchange system other than a recalculation of the "cost of exchange" which is to apply to preferential imports (i.e., the present rates of Cr$51.32 and Cr$53.82 per dollar would be moved to a rate of about Cr$60). In the opinion of the staff, although internal measures to end the inflation would make it possible to achieve domestic price and exchange rate stability, they would not in themselves be sufficient to assure balance of payments equilibrium over the longer run, particularly in view of Brazil's growing debt service and import requirements to support economic development. Accordingly, the staff considers changes

in the exchange system as an essential part of a stabilization effort. This will constitute the most difficult area of negotiations with Brazil.

The present main import arrangements include (1) exchange auctions for private imports not benefiting from privileged treatment (at present about $600 million annually). The recent effective exchange rates were about Cr$170 per dollar for general category imports and about Cr$350 per dollar for special category imports. (2) A privileged treatment involving a rate of Cr$51.32 per dollar for imports of consumption goods and capital goods recognized as essential to economic development and the national security (about $280 million annually); (3) a privileged treatment involving a rate of Cr$53.82 per dollar for petroleum imports (about $300 million annually); and (4) a privileged treatment involving a very appreciated rate for imports of newsprint (about $40 million annually).

There is also a free market rate for invisibles and capital, which at present is about Cr$110 per dollar.

The staff proposes that the auction mechanism be maintained as it is at present, for the time being. Imports receiving a privileged treatment except for capital goods, however, would be included in one single group to which an effective rate of Cr$100 per dollar would apply. Capital goods now receiving a privileged treatment would be subject to an effective rate equivalent to that prevailing for "general category" imports. There may arise a legal difficulty in the case of newsprint. Should it not be possible to overcome this difficulty, the present arrangement involving a gradual depreciation of the rate would continue to operate. All service and capital transactions now receiving privileged treatment would be subject to an effective rate of Cr$100 per dollar.

The present treatment given to Brazilian exports is the result of various arrangements superimposed to the established rates for the four export categories and presents the following characteristics: Coffee exports receive Cr$37.06 per dollar plus a bonus which varies in proportion with the foreign price, plus an undetermined amount of local currency resulting from a tolerated underinvoicing of exports and the negotiation in the free market of that portion of exchange not surrendered to the authorities. All considered, the present effective rate is close to Cr$50 per dollar. Cocoa and cocoa products receive Cr$43.06 per dollar. All other products in effect receive through the so-called symbolic purchase plan varying amounts of cruzeiros which correspond to exchange rates of Cr$67 to Cr$90 per dollar.

The staff proposes that only two export categories be established and all other special arrangements be abolished. One category would include coffee, cocoa, and cocoa products and would receive effective exchange of Cr$70 per U.S. dollar. The other category would include all other products and would receive an effective exchange rate of Cr$100 per U.S. dollar.

It is to be noted that all the proposed changes are possible under existing legislation.

(f) Exchange budget. To limit Brazil's balance of payments deficit for 1958 in U.S. and ACL currencies to the amount specified in the Brazilian program, payments for preferential imports and capital service should be limited to the amounts specified in the Brazilian exchange budget, i.e., $404.1 million and ACL$133.7 million for preferential imports and US$174.2 million and ACL$49.4 million for capital service. Moreover, to bring payments in 1959 to levels within which balance in convertible currencies is possible, amounts auctioned in convertible currencies should be reduced from the current level of $4 million per week by $250,000 per month starting in June until a level of $2.5 million per week is

reached in November. This would restore the monthly level of exchange sales to the level prevailing prior to the Government's attempt to appreciate the auction market rate--i.e., $10 million. Should the fiscal, credit, and other exchange measures of the program reduce import demand, amounts auctioned should be reduced correspondingly as the dollar agio for the general category declines and in no case should the agios for the general category be permitted to fall below Cr$120 per U.S. dollar without an immediate reduction in the amount auctioned to bring the agio up to Cr$120. This policy should be continued until Brazil's lines of credit with the New York banks are fully restored. To attain a 1959 balance in ACL payments, auctions of ACL currencies should correspondingly be reduced from their current level of ACL$3.2 million per week by ACL$100,000 per month starting in June until a level of ACL$2.75 million per week is reached in November. This would restore the monthly level of ACL currencies offered for auction to $11 million per month, the level prevailing in mid-1956 when the Government began to increase the offering of currencies in the auction market.

(g) Suppliers' credit. In view of the heavy debt service maturing in the next several years, measures are needed to maintain the medium-term debt burden of Brazil within the country's capacity to pay. The increase in Brazil's medium-term indebtedness to foreign suppliers has been spurred on by a preferential import rate of Cr$51.32 per dollar and the issue of exchange priority certificates. The staff's proposal on the exchange system envisages the elimination of preferential exchange rate treatment for these capital goods imports and the application of the auction rate to these imports. This should help considerably in curbing imports against medium-term suppliers' credits. The Brazilian officials have also informed us that SUMOC is now contemplating adopting measures to severely restrict the incurring of medium-term credits,

particularly obligations which would further burden the country's debt service in the next three years. The letter of commitment from the Brazilian Government should as a minimum include a statement of the policy to be pursued with respect to new medium-term suppliers' credits.

3. Other staff remarks

(a) With respect to the timing of the negotiations, it should be noted that Brazil, pending conclusion of its negotiations with the IMF and U.S. Government, has concluded a US$30 million, 120-day loan (against the pledge of coffee as collateral) with the Chase-Manhattan Bank. The staff also understands that Brazil is negotiating similar loans up to another US$30 million with other U.S. banks. Conclusion of an arrangement with the Fund, therefore, is not urgent and final conclusion of a stand-by arrangement with Brazil should await whatever period is necessary for Brazil to give firm assurances, particularly as concerns its policy with respect to the expected huge 1958-59 coffee surplus.

(b) Fund financial assistance alone is not sufficient to meet the payments problem which Brazil faces in 1958. Brazil, therefore, is also negotiating with the U.S. Government. Since the financial cooperation of the U.S. Government depends on the program agreed to between Brazil and the Fund, there should be some coordination of views with respect to the Brazilian problem prior to our making definite counterproposals to the Brazilian Government.

(c) An important problem will be that of follow-up on the progress of the agreed stabilization plan. The staff considers that it is essential that a Fund representative be stationed in Brazil from the initiation of the plan to the end of 1958 as a minimum. The role of the Fund representative would be to report to the Managing Director on the progress of the stabilization program and maintain liaison between the Fund staff and the Brazilian Government.

The person designated would be paid his salary and allowances by the Fund and would not function in the capacity of technical assistant to the Brazilian Government as in certain other countries.

(d) The staff also considers that it is essential that there be further discussions in Rio de Janeiro before the stand-by arrangement is finalized. It is important that the responsible Brazilian officials are fully aware of the plan and agree that the plan is desirable and feasible. It would be most desirable that the proposed Fund representative to Brazil participate in these discussions.

INTERNATIONAL MONETARY FUND

April 22, 1958

Mr. Cochran:

We intended originally to address this to you, but since you are switching operational responsibilities today, on second thought we are addressing it to the Managing Director. You might wish to glance over it, however, before submitting it to the Managing Director.

A copy is attached for your files.

J. Del Canto

Jorge Del Canto

Mr. del Canto

vel

The Managing Director April 22, 1958

J. Del Canto, W.H.D.

Brazil--Use of Fund Resources

1. Mr. Casimiro Ribeiro, the Economic Adviser to the Minister of Finance of Brazil is in Washington to assist the Brazilian Ambassador to the United States and Mr. Paranagua in the negotiation of Fund financial assistance. Mr. Casimiro Ribeiro telephoned on Friday, April 18, and asked for an appointment to present to the staff the measures which the Brazilian Government proposes to take to deal with the current external payments difficulties. Accordingly, a staff working group, chaired by Mr. Costanzo, was organized to listen to what Mr. Ribeiro had to report. The working group met with Mr. Ribeiro Friday afternoon (April 18) and Monday morning (April 21). The minutes of these conversations are attached hereto.

2. Brazilian financial program

The Brazilian stabilization plan outlined informally to the staff by Mr. Ribeiro has the following major features:

(1) An economy program in the federal budget of Cr$17 billion and the limitation of the budget deficit to Cr$25 billion.

(2) Ceilings to be placed on Bank of Brazil credits to the private sector at the level reached December 31, 1957.

(3) Implementation of a new reserve requirement on commercial banks requiring 50 per cent of increments in deposits to be held to the order of SUMOC in deposits at the Bank of Brazil or in Treasury bills. Discount rates have also been increased from 6 per cent to 8 and 10 per cent.

(4) A coffee stockpiling policy, the details of which are not yet officially decided, which will largely be independent of bank financing.

(5) A recalculation of the cost of exchange to increase the exchange rate for preferential imports to about Cr$60 from the present Cr$52.

(6) To cover the estimated balance of payments gap for 1958, the Brazilian Government is seeking the following financing:

(a) Fund drawing (third tranche) - $37.5 million,

(b) Deferment repurchase obligations to Fund maturing 1958 - $37.5 million,

(c) U.S. Export-Import Bank - $90-100 million,

(d) Additional lines of credit with New York - $30 million.

3. Staff comments

The ensuing discussion elicited the following information of importance in assessing the plan:

(1) The budget economy program is rather similar to one adopted last year. The 1957 economy plan was also for Cr$17 billion. However, the 1958 program differs in that a greater amount is for elimination of items (Cr$10 billion instead of Cr$6 billion) and a correspondingly smaller amount for postponements. Further, the President this year has undertaken not to restore cuts which in 1957 reduced the program by Cr$3 billion.

(2) The ceilings on the Bank of Brazil are eminently satisfactory. However, for seasonal reasons the limit will not be restrictive for some months.

(3) The new reserve requirement will restore and increase the restraint obtained in 1957 by a marginal 40 per cent requirement which has now largely lapsed due to the banks reaching the limiting average reserve level.

(4) The coffee stockpiling program that is planned has the most satisfactory feature of directly placing the burden on the producer by a compulsory surrender provision. It is, however, not yet adopted and is not therefore a definite undertaking.

(5) The exchange system retains its arbitrary characteristics. No alteration is planned in the present system of providing individual commodity treatment through the so-called symbolic purchase. Further, the present very wide spread in effective rates will continue on the import side. Further complexity is to be added to the treatment of imports by the introduction of new discriminatory prohibitions designed to increase the use of bilateral balances.

(6) No action is planned to vary the present system of encouraging investment by use of suppliers' credit. The rapid increase in the burden of indebtedness through this system is not subject to direct check although the profitableness of the individual investment is strictly investigated.

4. Conclusions

(1) The working group is of the opinion that the Brazilian Government now shows greater awareness of the seriousness of the financial situation and is more prepared to take the type of measures needed than was the case at the time of the recent Fund mission visit. The rapid depreciation of the currency in the free market and the import auction market has alarmed public opinion and is bringing pressure on the Government for action to arrest the inflation.

(2) The staff group was given the impression that the Brazilian authorities did not intend the plan presented to be regarded as inflexible. It appeared that the points of weakness disclosed in the preliminary discussion might be amenable to negotiation.

(3) The discussions also indicated that the Brazilians expected to make an immediate drawing. This would eliminate the possibility of devising any performance safeguards which from past experience may be considered essential. This subject may well prove to be the most difficult matter to negotiate and will probably require Fund participation in a joint operation with others to obtain a sufficiently large total loan program to extend over a period long enough for performance to be judged.

5. Recommendation

It is recommended that the next step be that of formulating a Fund position as to the basis on which the Fund management would agree to support a Brazilian request for the use of Fund resources. If you agree, the Western Hemisphere Department together with the other interested Departments, Legal and Exchange Restrictions, will prepare for submission to you a draft stand-by arrangement and letter outlining the undertakings of the Brazilian Government as a basis for Fund assistance.

GACostanzo:eb

Minutes of Meeting With Mr. Casimiro Ribeiro

April 18, 1958, 2:30 p.m.

April 21, 1958, 9:30 a.m.

Brazilian Representative

Mr. Casimiro Ribeiro, Economic Adviser to the Minister of Finance

IMF Representatives

Mr. J. Del Canto, Western Hemisphere Department
Mr. G. A. Costanzo, Western Hemisphere Department
Mr. C. David Finch, Western Hemisphere Department
Mr. T. Sweeney, Western Hemisphere Department
Mr. M. Kemal Kurdas, Exchange Restrictions Department
Mr. Edison Reyes, Western Hemisphere Department
Mr. Ugo Sacchetti, Exchange Restrictions Department

After a short exchange of views on the procedure to be followed, Mr. Ribeiro stated his Government's intention to carry out a comprehensive stabilization program in order to contain domestic inflation and relieve pressure on the balance of payments. He gave the main lines of this program as follows.

1. Fiscal policy

The Brazilian Government plans to limit the 1958 Federal Government cash deficit to Cr$25 billion. This compared with a Cr$41.1 billion cash deficit incurred in fiscal 1957. As will be remembered, at the beginning of the year the Brazilian authorities had estimated the fiscal deficit for 1958 at about Cr$48 billion (Cr$140.5 billion original budgetary appropriations plus Cr$8.2 billion additional and Cr$16.0 billion extraordinary expenditures as against Cr$117.0 billion revenue receipts). In order to reduce that deficit to a manageable magnitude, the Budget Bureau (DASP) had prepared an economy plan designed to reduce the 1958 budget expenditures by Cr$14.0 billion. Under the directions received from the President of the Republic, the Minister of Finance has studied this plan and had increased the possible savings to Cr$17.1 billion. This latter plan has been approved by the President and published in the official gazette as the program of the Government. To assure the successful execution of the economy plan, the President has reviewed the plan with the leaders of Parliament and obtained their support.

The economy program of Cr$17.1 billion consists of Cr$10.5 billion of actual cuts in budgeted expenditures and Cr$6.6 billion of postponement of 1958 budget expenditures to future fiscal years (entries to restos a pagar). The Government also proposes to limit extrabudgetary expenditures in fiscal

1958 to Cr$10.6 billion and anticipates cash payments for commitments carried over from previous fiscal years at Cr$8.0 billion. The Government also proposes to take certain administrative measures to assure realization of the estimated level of Cr$117 billion in fiscal revenues. The revenue figure in the original budget approved by the Brazilian Parliament was Cr$130.2 billion.

The Government's economy program for fiscal 1958 can thus be summarized as follows:

	Original 1958 Budget	Revised 1958 Budget
	(In billions of cruzeiros)	
1. Regular budget expenditures	140.5	130.0
2. Extrabudgetary expenditures	16.0	10.6
3. Carry-over from previous fiscal years	8.2	8.0
4. Total expenditures	164.7	148.6
5. Less revenues	117.0	117.0
6. Fiscal deficit	47.7	31.6
7. Carry-over payments to future fiscal years	--	6.6
	47.7	25.0

The Government proposes to finance the Cr$25 billion contemplated cash deficit by issuing Treasury bonds, Cr$15 billion would be placed with the commercial banks and the balance of Cr$10 billion with the Bank of Brazil.

2. Credit policy

Credit availability to the private sector will be tightened in 1958 by an over-all ceiling on credit operations of the Bank of Brazil and a tighter rediscount and reserve requirement policy for the private commercial banks.

a. Bank of Brazil. On March 28, 1958 the Minister of Finance instructed the President of the Bank of Brazil that total credit to the private sector extended by the Bank should not exceed the balance outstanding as of the end of 1957. The distribution of credit within this over-all ceiling as between departments of the Bank of Brazil and the various economic sectors is left to the Bank of Brazil. The President of the Bank has concurred with the ministerial instruction and indicated that he can operate under the established ceilings provided that the government policy with respect to coffee is consistent with these instructions. The President of the Republic has agreed to discontinue making recommendations with respect to credit demands of individuals or economic sectors.

b. Commercial banks. The Government's credit program also includes monthly ceilings on rediscounts by the Rediscount Department of the Bank of Brazil to the commercial banks at the level outstanding in the corresponding months of 1957. In addition, the rediscount rate has been raised from 6 per cent to 8 per cent and 10 per cent, depending on the nature of the paper presented for rediscount.

Under existing legislation, the maximum legal reserve requirement for commercial banks is 6 per cent against time deposits and 14 per cent against demand deposits. A SUMOC instruction of August 1956 has required commercial banks to deposit 40 per cent of the current increment in demand deposits to legal reserves until the maximum legal reserves of 12 and 14 per cent have been reached. Most banks have now reached or are about to reach the 14 per cent level of legal reserves for demand deposits. The Government has, therefore, presented to the Parliament new legislation raising the ceiling on legal reserves to 12 and 24 per cent on time and demand deposits, respectively. The Government proposes to require banks to deposit 50 per cent of the current increment in deposits to legal reserves until the maximum legal reserves under the new legislation are reached.

3. Coffee policy

The Government is considering a coffee policy for the coming 1958/59 crop, which will place the burden of coffee withholding from export markets primarily on the producers. The scheme under consideration, which would be announced late in May or early June 1958, will set the following conditions:

(1) 10 per cent of low-grade coffee delivered at railroad heads by producers will be destroyed without compensation;

(2) 30 per cent of coffee delivered at railroad heads will be withheld in the warehouses without payment to the producers. This stock will be available only for domestic consumption. Since the supply in the domestic market will be increased substantially, a significant decline in domestic coffee prices and an increase in domestic consumption is expected. The producers will receive the proceeds from the domestic sales of coffee.

It is estimated that the 1958/59 coffee crop will be of approximately 25 million bags. A withholding of 40 per cent of this crop, equal to 10 million bags, will leave 15 million bags for export. Only if this exportable surplus cannot be entirely marketed will the Government, through the Brazilian Coffee Institute, absorb the balance. It is estimated that under this plan the burden on the Government and the consequent inflationary effect of coffee stockpiling, will be reduced to a minimum.

4. Exchange system

Because of certain political considerations, the Minister of Finance is not prepared at this time to make any significant change in the exchange system. The only step now under consideration is the recomputation of the average cost of exchange which is used as a minimum base for setting the exchange rate for preferential imports. It is felt that the new average cost of exchange will be established at about Cr$60 per U.S. dollar. This will mean an increase in the rate for preferential imports from Cr$51.32 per U.S. dollar to about Cr$60.

The special rate for textile exports of Cr$103 per U.S. dollar is still in effect, but because of various difficulties its application has been very limited.

5. Estimated payments deficit in 1958 and financing plan

The Brazilian authorities estimate that the country will be faced with a payments deficit equivalent to about $200 million in 1958, of which 150 million will be in U.S. dollars (including repurchase of $37.5 million from the Fund), and 50 million in ACL currencies. The Government proposes to finance this deficit as follows:

(a) $35-40 million will be covered through shifting of certain imports (caustic soda, pulp, malt, etc.) to bilateral agreement countries with which Brazil has surplus balances. No exchange allocation will be provided for these imports from the dollar and ACL areas. These commodities will be shifted to the special import category, and specific auctions will be held for them. The authorities intend to keep the agios under these specific auctions at the level corresponding to agios for the U.S. dollar in the general category.

(b) Renegotiation of $37.5 million of repurchase obligation from the Fund with a view to a postponement.

(c) $37.5 million of new drawing from the Fund;

(d) The Government intends to finance the remainder, of about $90 million, by negotiating a loan with the U.S. Government.

The Brazilian Government does not intend to avail itself of the understanding agreed with the Export-Import Bank in Washington in July 1956 whereby the latter would prolong the time of certain payments previously extended to Brazil whenever Brazil's dollar earnings dropped below $60 million a month.

6. Suppliers' credit

The Government intends to apply a stricter criteria regarding imports financed with suppliers' credit. However, no annual ceiling has been set on imports that may be permitted under this arrangement, nor has consideration been given to raising the rate applied to these imports. At present they benefit from the preferential rate of Cr$1.32 per U.S. dollar.

APR 14 1958

Gentlemen:

I write to acknowledge receipt of your letter of March 27, 1958 (DE/DIVIN/Cta.46/58) giving further information concerning our description of the exchange system of Brazil as prepared for the Fund's Ninth Annual Report on Exchange Restrictions.

In view of your remarks we are noting on the Table of Exchange Rates that the exchange rate applicable to "government and official receipts" is Cr$18.50 per US$1. In accordance with the suggestion contained in the last paragraph of your letter we are deleting the words "except registered financing of unquestionable interest" from under the heading "89.50 (Fluctuating Free Market Rate)".

Thanking you for your cooperation in this matter,

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman
Director
Exchange Restrictions Department

cc: Mr. Paranagua
WHD

Division of International Affairs
Economics Department
Superintendencia da Moeda e do Credito
Rio de Janeiro
Brazil

RKalivoda/mma
4/14/58

WHD

INTERNATIONAL MONETARY FUND

March 31, 1958

TO : The Managing Director

FROM: The Secretary

Mr. Paranaguá has informed me that the Brazilian Ambassador is leaving immediately for Rio and that not until he gets back to Washington, a week or ten days hence, will it be possible to consider a time table for Board discussion of their consultations report.

cc: Deputy Managing Director
Mr. Del Canto
Mr. Friedman

L. Costa
a. Friedman
3. Mrita: file

Superintendência da Moeda e do Crédito

Rio de Janeiro, March 27, 1958.

DE/DIVIN/Cta. 46/58.

Mr. Irving S. Friedman
Director of Restrictions Department
International Monetary Fund
19th and H. Streets, N.W.
Washington 25, D.C.
U. S. A.

Orig: ERD
cc: Mr. Paranagua
WHD
Mr. Kalivoda

Dear Mr. Friedman,

In replying to your letter of March 12, inst., we are pleased to advise you that according to Fund's interpretation there are no exchange transactions taking place at the official buying rate of Cr$18.36 per US$1.00. This is the basic rate to which all bonuses are added to form what the IMF refers to as effective exchange rates.

As to "government and official receipts" we would like to inform you that they are conducted at the parity rate.

We also take this opportunity to propose the following alteration on page 12 of your draft:

Under the heading "89.50 (Fluctuating Free Market Rate)", after the words "All incoming capital" please cross out the expression "except registered financing of unquestionable interest".

Very truly yours,

ECONOMICS DEPARTMENT
Division of International Affairs

Herculano Borges da Fonseca
Chief of the Department

Christiano Nery de Sampaio Vianna
Acting Chief of the Division

JA/RM

OFFICIAL | **OUTGOING MESSAGE** | OFFICIAL

FOR PREPARING OFFICER
- ☐ Night Letter
- ☒ Ordinary
- ☐ Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: Casimiro A. Ribeiro

Adviser to the Minister of Finance

Ministry of Finance

Rio de Janeiro (Brasil)

Coded cable to Minister sent today. Code available SUMDC.

COSTANZO
INTERFUND

Re: Brazil

[redacted] By G.D. Finch

Department W.H.

Date March 24, 1958

AUTHORIZATION

J. DEL CANTO
Signature

Second Signature When Required

FOR CODE ROOM
Time Received 6:20 PM
Time Dispatched 6:55 PM
Number of Words 24
Log 2120
Route ALL AMERICA
Operator AF

DISPATCHED MAR 24 1958 BY CODE ROOM

DO NOT TYPE BELOW THIS LINE

cc: Mr. Jacobsson
Mr. Paranagua
Mr. Del Canto
Mr. Cochran
Mr. Costanzo
Mr. Gold

OFFICIAL **OUTGOING MESSAGE** OFFICIAL

FOR PREPARING OFFICER
☐ Night Letter
☐ Ordinary
☒ Code
SPECIAL INSTRUCTIONS

D By J. Gold, J. Del Canto, GA Costanzo

Department Legal and WHD

Date March 24, 1958

AUTHORIZATION

Signed: Per Jacobsson

Signature

Second Signature When Required

FOR CODE ROOM
Time Received 5:30 PM
Time Dispatched 6:45 PM
Number of Words 207
Log 24248
Route ALL AMERICA
Operator AT

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: His Excellency Jose Maria Alkmim
Minister of Finance, Rio de Janeiro (Brazil)

Have discussed the Brazilian situation with the group which recently visited your country. Confirm that established Fund pdlicy applicable to all members in connection with drawings beyond equivalent of fifty per cent of quota is as stated page 120 Fund Annual Report 1957: "In the conditions of today, the general principles set forth in recent Annual Reports as governing the use of Fund resources beyond the first credit tranche mean that members' requests for such drawings or stand-by arrangements are likely to be favorably received where they are intended to support well-balanced and adequate programs which are aimed at establishing or maintaining the enduring stability of the currencies concerned at realistic rates of exchange, and may therefore reasonably be regarded as establishing the conditions for substantial prigress toward convertibility." In light of this established policy I could not, as Managing Director, support transaction with Fund in absence of an effective program consistent with above policy.

JACOBSSON
Interfund

DO NOT TYPE BELOW THIS LINE

cc: Mr. Jacobsson
Mr. Paranagua
Mr. Del Canto
Mr. Cochran
Mr. Costanzo
Mr. Gold

Mr. Costanzo.

CONFIDENTIAL

The Managing Director

March 24, 1958

Joseph Gold

Should we consider a gold collateral transaction with Brazil?

1. If Brazil's needs are of an emergency character, relations with the member might be damaged for some years to come if we refuse any form of assistance. At the same time, any assistance that we might consider should not undermine the Fund's policies. One way in which we might offer assistance without departing from established policies for normal transactions is by a transaction with full gold collateral under Article V, Section 4. After all, if the alternative we envisage is the sale by Brazil of some of its gold, the transaction might as well be with the Fund, and in a form involving a certain element of credit. There would be the further advantage of opening up a new type of Fund transaction; hitherto there has been no transaction involving collateral of any kind.

2. Some years ago, when the Fund was inactive in operations, a detailed project for gold collateral transactions was put to the Board, which, however, did not discuss it. Among the reasons for this absence of enthusiasm were the following:

(a) Perhaps the most generally shared reaction was the fear that gold collateral might become a habit with the Fund, even in cases where collateral was not justified. This fear should be almost non-existent now.

(b) Gold collateral loans are undesirable because they enable monetary authorities to "window-dress" their accounts by showing gold which they own only in the sense of having the bare legal title.

(c) Competition with other institutions offering gold collateral loans, and on terms more favorable than those given by these other institutions. This raises the question of charges, which is dealt with in paragraph 6 below.

(d) Gold collateral transactions might induce the Fund to enter into transactions on a large scale without insisting on appropriate policies on the part of members. It was feared that there would be a progressive weakening in the resolution of both Fund and members to insist on and adopt correct policies.

(e) The Fund would never have the courage to foreclose the pledge, so that gold collateral transactions would be illusory.

3. If it is felt that such arguments as those set forth above are not now sufficiently persuasive against a gold collateral transaction with Brazil, the transaction could take the form of a sale of currency for say a year against a pledge of gold for the full amount. It could be made clear that this was a transaction (a) peculiar to the circumstances of Brazil, (b) intended to provide a relatively short breathing-spell for the formulation of an exchange reform etc., and (c) not implying any general policy as to the use of gold or other collateral.

4. It has been thought that the Fund would never foreclose a pledge, because this would publicize a default by a member. However, this problem could be avoided by giving the transaction a form that does not appear to involve foreclosure. This could be done by attaching to the pledge an unconditional agreement between the Fund and the member that if repurchase of the currency sold is not otherwise repurchased by the end of the year (or other period chosen), the gold would then be used for repurchase.

5. When the project for gold collateral transactions was last submitted to the Board, a model pledge agreement of a very complicated character was attached. The main reason for the complexity was that the Federal Reserve Bank of New York was to be a third party as holder (bailee) of the gold under the pledge agreement, and the Federal was meticulous in its concern about its legal position. The model pledge agreement was negotiated with the Federal but I do not recall that it ever expressed its formal assent. It seems to me now that we could avoid these and other complications by taking a transfer of the gold into our ordinary gold account, so that as far as the Federal is concerned we would be the owners. However, on our books and in our accounts we would show the gold, during the period of the transaction, as held under earmark for the member. That is to say, the form of holding would be the same as has always been employed for gold held under earmark pursuant to Rule I-1 of the Rules and Regulations. If the gold were ultimately used in repurchase, it would cease to be held under earmark.

6. There might be some argument, as in the past, that gold collateral transactions should be at lower rates of service and variable charges. Probably, lower rates could be levied on the theory that the references to uniformity in Article V, Section 8 mean the same charges for the same type of transaction, and that reasonable distinctions as to type may be made. However, it would probably be unwise to reduce established rates and provoke arguments that we were encouraging gold collateral transactions and competing with other institutions.

7. If IBRD loans to Brazil contain standard IBRD negative pledge clauses, Brazil would have to get the consent of the IBRD to a gold collateral transaction with the Fund.

Mr. Per Jacobsson, Managing Director March 21, 1958

G. A. Costanzo

Mission to Brazil

1. Attached is a copy of an aide-memoire which the Fund mission left with the Minister of Finance. The purpose of this aide-memoire was to create a record of our final meeting with the Minister in which we summarized our findings and pointed out the necessity of a broad approach to the Brazilian financial problem involving fiscal, credit, exchange and foreign debt management policies. You will note we recommended that a Brazilian working group be established to formulate a governmental action program. We suggested that a working group of the SUMOC Council might be an appropriate body for this work in that it includes the principal financial agencies of the Brazilian Government--the Ministry of Finance, the Bank of Brazil, the Economic Development Bank, and the SUMOC secretariat.

2. The Minister's reply was that he was unable at this time to embark on a broad financial program due to political difficulties being encountered by the Government and an important congressional election which is in the offing (October). The Minister indicated that the most he could do was to give assurances that he would do his best to postpone budget expenditures in the coming months with the hope that pressures on the budget would subside after the elections. On the credit front, he indicated that he had given telephone instructions to the President of the Bank of Brazil to pursue a highly restrictive credit policy. With respect to the private commercial banks, he intends to soon propose to Congress a law which would authorize SUMOC to raise legal reserve requirements up to a maximum of 6 and 24 per cent on time and demand deposits. The present legal maximum is 7 per cent for time deposits and 14 per cent for demand deposits. Although the Minister appeared to agree with our observations on the shortcomings of the existing exchange system, he gave no indication that he was prepared to do anything on the exchange system in the near future.

3. The Minister made a plea for Fund assistance even on a small scale because of the immediate effects on Brazilian psychology of the announcement of such assistance. He felt that this help would bring an end to the present speculation against the cruzeiro. In view of the very low level of Brazilian reserves, the Minister asked to receive the Fund management's reaction to a Brazilian drawing as early as possible. The Fund mission indicated that it would urge the Fund management to give a reply by the close of business on Monday, March 24.

4. From the several discussions with the Minister and his immediate advisors, I came away with the impression that Minister Alkmim is confident of getting help from the United States Government without an economic program. He is, therefore, anxious to get a definitive reply from the Fund management, including a refusal of financial assistance, so that he can renew his request for assistance to the U.S. Government. A Fund refusal will enable him to inform

the U.S. Government that he approached the Fund for assistance, but the Fund turned him down. This enables Minister Alkmim to renew his request to the U.S. Government for financial assistance. The Minister's economic advisor informed us at the airport that he would probably be in Washington in a few weeks to negotiate financial assistance with the U.S. Government.

Aide Memoire

The International Monetary Fund mission has completed its study of the external payments difficulties which Brazil has been experiencing since the beginning of 1958. This is to serve as an aide memoire of the Fund mission's views on the causes of Brazil's foreign exchange difficulties and the courses of action available to the Brazilian Government in restoring equilibrium in its balance of payments.

Principal among the conclusions is a conviction that the present Brazilian crisis does not originate from temporary causes. The present problems clearly originate from a serious and continuing imbalance in internal finances. This imbalance has caused a heavy strain on Brazil's external position which has been aggravated into an immediate crisis by the market conditions for coffee. It is to be emphasized that even with a normal flow of coffee Brazil would still be faced with serious payments difficulties, although the crisis would have been later.

Internal Financial Situation

Monetary inflation continues to be Brazil's most serious problem. Despite a slackening of price advances in 1957, the basic forces for inflation were unabated. The government deficit grew at an alarming rate in 1957, reaching Cr$41 billion, an amount more than 50 per cent above the previous highest deficit. Banco do Brasil credit to the private economy grew by over 20 per cent while credit of the private commercial banks increased by over 25 per cent.

There is every indication that this rate of credit expansion has continued in 1958. The accounts of the Government show that authorized expenditures are at present Cr$12 billion greater than current receipts, the difference being financed by sale of Treasury bills taken up almost exclusively by the banking system. Accurate predictions of the outcome for the full year are clearly impossible but with present plans, it seems virtually certain that the deficit will reach at least Cr$30 billion and probably will exceed Cr$40 billion.

On top of this deficit there will be the additional burden of financing the coffee stockpiling program. With present crop estimates, the cost of this stockpiling may reach Cr$20 billion, about twice the cost in 1957.

The Banco do Brasil at present plans to follow the same credit policy as in 1957. The precise credit expansion which will occur depends on crop conditions and other factors, but in total a similar amount of additional credit seems probable. The private banks entered 1958 with a very substantial excess reserves. The Government intends to introduce new reserves measures which would permit the enforcement of a deposit of 50 per cent of future increases in deposits in the Banco do Brasil. This measure will do much to limit the secondary expansion but does not remove the existing excess liquidity. Consequently, private bank credit may be expected to expand more rapidly than in 1957.

In 1957 the expansion of credit was partly absorbed by the foreign exchange sales. In convertible and ACL currencies (including the drawing from the International Monetary Fund), approximately US$220 million was sold in excess of purchases. A deficit of this magnitude cannot be financed in 1958 and consequently the domestic impact of the inflation must be increased. Also, as the credit expansion in 1957 was particularly concentrated late in the year, temporarily cruzeiro balances increased without being reflected in price advances. In 1958, this past liquidity will bear heavily on demand. It is constantly to be remembered that the public will not hold cruzeiros substantially in excess of working balances. Beyond a certain point the excess will be used for purchase either of goods or of foreign exchange. The first signs of this have already been registered in the auction market--and later in the year will be registered in substantial advances in domestic prices.

The External Financial Position

The foreign exchange position of Brazil, reflecting the substantial external imbalance, deteriorated sharply in 1957. Convertible currencies to the amount of US$153 million were used together with the equivalent of US$67 million of ACL currencies. This reduced the level of available reserves, including all lines of credit, to dangerously low levels.

For 1958, the exchange budget formulated by the Carteira de Cambio shows a deficit of $128 million in convertible currency. The Carteira assumes, however, dollar earnings of $60 million per month or $720 million per annum. This level of dollar earnings is slightly higher than the level of dollar earnings in 1957, $707 million, and would require dollar earnings from coffee near the 1957 level. In light of the coffee developments in the first 2-1/2 months of 1958 and taking into consideration SUMOC's export projections for 1958, the International Monetary Fund mission arrives at the conclusion that for planning purposes dollar earnings in 1958 should probably not be estimated at a level higher than $650 million. This would add about $70 million to the dollar deficit shown in the exchange budget; hence, a dollar deficit in 1958 of approximately $200 million.

The estimate of a dollar deficit of US$200 million is based on the existing practice of an exchange budget which determines directly the amount of exchange sold. The further inflation arising from budgetary deficits during the course of the year should not, as long as direct control is maintained on exchange allocations, cause a substantial addition to the external payments deficit. The inflation, however, will result in a further rise in the auction and free market exchange rates and make the proposed reduction in preferential imports more severe in relation to demand, leading to higher domestic prices or scarcities in the supply of these preferential imports.

This position is extremely serious for Brazil. Assuming that this deficit does eventuate, Brazil will virtually have exhausted all available gold and exchange resources. At the beginning of 1959, Brazil would be defenseless against external fluctuations. Speculation in coffee will be almost impossible to counter as immediate exchange earnings will be essential if Brazil is not to default on a wide range of existing commitments.

Moreover, to continue the deficit at the level in 1957 will merely postpone the problem of adjustment. Whatever financing possibilities there are for this year will not be repeated later. This is extremely important for in 1959 the burden of debt repayment is very heavy. In fact, debt service plus an allocation for the same level of petroleum and other preferential items as is provided in the present 1958 exchange budget will require in 1959 US$750 million. Even assuming a US$100 million recovery in dollar earnings in 1959 as compared with 1958, no exchange will be available for "general" and "special" category imports. This situation may be improved by renegotiation of present payment schedules, but it is constantly deteriorating from the very great commitments currently being entered into on suppliers' credits.

Alternative Courses of Action

The alternative courses of action available to the Brazilian Government in coping with its dollar gap problem are as follows:

1. Continue to pursue existing monetary and fiscal policies and seek to cover the resulting balance of payments deficit by utilising the remaining gold and exchange reserves and/or borrowing from abroad. Such a course of action would be disastrous for Brazil. At best it would provide Brazil only a temporary breathing spell with no real, enduring solution of the external financial problem. It would lead to a complete exhaustion of Brazil's gold and exchange reserves, leaving Brazil defenseless against fluctuations in the world market and to speculative movements against its principal export, coffee. Foreign borrowing under these circumstances would add further to Brazil's already heavy foreign indebtedness with no real contribution to the solution of the basic financial problem. Meanwhile, domestic price inflation, exchange rate depreciation and the imbalance in external payments would continue, bringing Brazil to an even more serious financial crisis.

2. Take appropriate monetary and fiscal policy measures to end the internal inflation, but no changes in the exchange system. This alternative, although preferable to the first, would still leave Brazil with a fundamental balance of payments disequilibrium. The internal measures to end the inflation would make it possible to achieve domestic price and exchange rate stability, but would not be sufficient to assure balance of payments equilibrium over the longer run, particularly in view of Brazil's growing debt service burden and import requirements to support economic development. The present export rate arrangements, with a spread in non-coffee rates of Cr$43 to Cr$103 per U.S. dollar, are a serious deterrant to the expansion of the more competitive exports. To give differential rates based on costs is to penalize the efficient for the benefit of the inefficient. Moreover, the uncertainties of treatment do much to inhibit long-term investment. Equally on imports, the spread between effective exchange rates is very damaging to the longer term improvement of the balance of payments. Substantial

sectors of imports are receiving preferential treatment which from the long-term outlook overstimulate imports and understimulate domestic production. On the other hand, other imports are prohibited or receive such high rates that inefficient domestic competitors are unduly protected. When an eventual exchange reform restores normal trade, a substantial misdirection of investment will be exposed.

3. Internal monetary and fiscal policy measures accompanied by modifications in the exchange system to attain internal and external economic stability. This is the only real alternative available to Brazil for the solution of its financial problem and the establishment of a sound basis for an orderly and enduring economic development. External financial assistance to support an over-all Brazilian effort toward internal and external stabilization would be economically justifiable for Brazil.

Conclusions

1. External financial assistance alone can provide no real solution to Brazil's present financial difficulties. At most, it will merely provide for a postponement of the problem for a relatively short period, after which the problem will recur in an aggravated form.

2. The solution to Brazil's financial problem lies in the broad area of monetary, fiscal, and exchange policy as indicated in alternative 3 above.

3. In view of the broad nature of the problem and need for a program adapted in its details to the Brazilian environment, it is suggested that a working group of Brazilian technicians be established to examine the internal and external financial situation of the country and recommend to the Government an action program. A working group comprised of personal representatives of each of the members of the SUMOC Council would appear to be an appropriate body for this work since most of the action required will be within the competence of SUMOC.

4. The area covered by the above working group should include the following:

(a) The budgetary situation of the Federal Government and measures required to reduce the deficit to a level which can be financed without recourse to inflationary financing;

(b) Credit policy of the Banco do Brasil and measures required to contain credit expansion within limits compatible with economic stability;

(c) Measures required to avoid excessive credit expansion by the private commercial banks;

(d) Costs of the Government's coffee stockpiling policy and noninflationary means of financing this cost;

(e) Modifications required in the exchange system to provide incentives for an expansion of exports and, on the import side, eliminate arrangements overstimulating imports and providing excessive protection, channeling national savings toward non-economic enterprises; and

(f) Medium-term indebtedness of the country and measures needed to maintain the medium-term debt burden within the country's capacity to pay.

International Monetary Fund mission
March 18, 1958

MAR 12 1958

Dear Mr. Costanzo:

Attached is a copy of a letter which we are today sending to the Superintendencia da Moeda a do Credito. I think you will find it self-explanatory and I do not expect that any action on your part will be necessary. However, I am keeping you informed on this point should the Brazilian authorities consult you concerning their reply. Actually, for your private information, we are not certain whether the omission of "Government and official receipts" under the official buying rate of Cr$18.36 is a typographical error on their part or whether in fact these transactions are taking place at some other rate. In the latter case, the Brazilian authorities should of course inform us what is the applicable rate and when the change took place.

I trust the work of the mission is proceeding satisfactorily. With kind regards to yourself and Kemal,

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman
Director
Exchange Restrictions Department

Enclosure

cc: WHD

Mr. A. A. Costanzo
Hotel Excelsior
Rio de Janeiro
Brazil

Malvreda/mma 3/10/58

MAR 12 1958

Gentlemen:

I write to acknowledge receipt of your letter of February 25, 1958 (EM/DIVIN/Cta. 23/58) submitting your comments on our draft of the exchange system of Brazil as prepared for the Ninth Annual Report on Exchange Restrictions. The changes which you propose are being incorporated in a revised draft and it is desired to express thanks for the trouble which you have taken in this connection.

There is, however, one point on which we wish to comment. In the Table of Exchange Rates which you have kindly brought up-to-date for us, we notice that there are no transactions listed under the official buying rate of Cr$18.36. Is it to be understood from this that in practice no exchange transactions at all take place at the official buying rate? Perhaps you would kindly advise us on this point and indicate under which exchange rate "Government and official receipts" should be placed.

Thanking you for your cooperation in this matter,

Sincerely yours,

(signed) Irving S. Friedman

Irving S. Friedman
Director
Exchange Restrictions Department

cc: Mr. Paranagua
WHD

Economics Department
Division of International Affairs
Superintendencia da Moeda e do Credito
Rio de Janeiro
Brazil

Approved by Western Hemisphere

RKalivoda/mna
3/6/58

March 12, 1958

Mr. Per Jacobsson

Jorge Del Canto

Mr. de Moubray has probably called your attention to an item on Brazil in today's New York Times, page 17. The attached recent letter from Mr. Black to Minister Alkmin will be of interest to you.

Attachment

March 11, 1958

Mr. de Moubray:

Thank you for your clarification on Brazil, last Friday. You may be interested in the attached memo that I sent the Managing Director to make sure that my understanding of policies for the 3rd tranche is correct.

J. Del Canto

Attachment

JDelCanto:arb

Mr. Del Canto

6/11

INTERNATIONAL FINANCE CORPORATION
1818 H STREET, N.W., WASHINGTON 25, D. C. TELEPHONE: EXECUTIVE 3-6360

PRESS RELEASE NO. 11
FOR RELEASE A.M. NEWSPAPERS
March 10, 1958

SUBJECT: IFC Investment in Brazil

Robert L. Garner, President of the International Finance Corporation, announced today that the Corporation has reached agreement, subject to completion of the necessary legal formalities, for a $1.2 million investment in Olinkraft, S.A., Celulosa e Papel, a Brazilian subsidiary of the Olin Mathieson Chemical Corporation of the United States, for a kraft pulp and paper project.

Initially an existing kraft pulp and paper mill, together with a hydro-electric power plant, and long fibre Parana pine timber land, is being purchased from a Brazilian corporation by Olinkraft. The mill and property are located at Canoas, in the Sta. Catarina Province of Brazil.

During the course of 1958 new equipment will be installed to balance present facilities to enable production of about 35 tons per day of unbleached kraft pulp, paper and liner board.

As soon as economic conditions justify, Olin Mathieson plans to expand the capacity of the mill to 80 tons per day, and to acquire and develop forest reserves adequate to meet the requirements of the expanded mill on a sustained yield basis.

The total investment in the project is $4.4 million of which Olin Mathieson has invested $2.2 million in the form of equity and a loan of $1 million has been received from Brazilian sources. IFC's investment of $1.2 million will be in Notes, bearing interest at 7%. The Notes will mature from 1963 to 1970 and may be redeemed at any time at par. The Corporation will also receive a 12-year option on shares having a total par value equivalent to the face amount of the Notes at the present rate of exchange.

Office Memorandum

TO : Mr. Jorge Del Canto

DATE: March 10, 1958

FROM : A. Foz

SUBJECT : Brazil: Experience with Swap Operations

Brazil has had a long experience with swap operations. Before the free market was established in 1953, it was used by the owners of foreign exchange exclusively as a means for obtaining cheaper credit by taking advantage of the difference between prevailing interest rates in Brazil and abroad. Later, due to the uncertainties involving the level of the free market rate, swap operations became even more desirable to investors since it offered a hedge against a possible depreciation of the rate.

In general these operations were undertaken by large foreign companies having easy access to credit facilities abroad to attend their normal or seasonal credit requirements (either importers and manufacturers such as Standard Oil, General Motors, etc., or exporters such as Anderson Clayton, etc.).

The worsening of economic conditions in general and the depreciation of the rate in the free market, in addition to the sporadic intervention of the authorities to maintain the rate at levels sometimes quite arbitrary, resulted in swap transactions being also used for exchange speculation.

The usual swap operation by the Banco do Brasil calls for the payment of interest rate of 6 per cent per annum, by the private firm, has a maturity of 180 days renewable and the same rate of exchange (sometimes a mere account rate) for both spot and forward transactions.

In the initial period, it could be said that swap operations were, if not advantageous, at least innocuous to Brazil. However, when inflationary pressures developed and it was necessary to impose credit restrictions, engaging in swap operations resulted in the need of even more strict credit restrictions, at least to the extent corresponding to the difference between the rate at which the swap contract was made and the rate at which the exchange was resold, which was usually more appreciated. When the exchange rate began to depreciate and hedging and/or speculation against the rate became an incentive to swap operations the Banco do Brasil's position became even more vulnerable. Not only credit restrictions were undermined but virtual cruzeiro losses were incurred whenever the bank had to terminate a swap transaction by selling exchange at a rate lower than the prevailing market rate.

At present Banco do Brasil is reported to have more than $100 million of outstanding swaps. In view of the low level of international reserves, it is evident that it would be impossible for Brazil to terminate those contracts, thus the need for their renewal which represents the maintenance of practically Cr$1 billion of credit that could perhaps have been reduced. Had credit restrictions been effectively imposed and in the absence of swap operations, it is to be assumed that a large percentage of that sum would have come into the country

either in the form of a capital inflow or a repatriation of capital. At any rate, it appears to be the belief of the Brazilian authorities that most of these swaps represent a legitimate inflow of fixed capital thus the unlikelihood of their repatriation in the foreseeable future.

The argument that present uncertain conditions in Brazil and prevailing exchange system would have discouraged investment capital inflow but for the swap mechanism, does not appear to be valid. No doubt some capital would have waited until conditions became more stable, on the other hand "hot money" inflow would not have been encouraged.

Mr. G. David Finch

March 7, 1958

E. Zayas

Brazil's Coffee Policy and the Mexico Agreement

By the Mexico Agreement Brazil committed itself to maintain unchanged its policy support of world coffee markets in accordance with regulations enacted in Brazil for the 1957-58 crop season. This policy consists primarily of regulating the transportation of coffee to the ports and to foreign markets and in maintaining minimum prices, through purchase by the Brazilian Coffee Institute when necessary. The minimum price for soft Santos No. 4 is Cr$3,300 per bag (132.27 lbs) or about 53 U.S. cents per lb. at the corresponding export exchange rate.

New York spot quotation for Brazilian coffee type Santos No. 4 has been about 54.5 U.S. cents per lb. so far in 1958. This price is equivalent to about 53 U.S. cents per lb. f.o.b. Brazilian ports. At this price, the corresponding effective rate for coffee exchange (that is, including the premium paid on prices above the basic $42 per bag) is Cr$47.44 per dollar. Thus, the cruzeiro equivalent per bag of coffee at this price and exchange rate amounts to Cr$3,320, which is nearly equal to the minimum price set for type Santos No. 4, of Cr$3,300 per bag.

It appears that coffee prices have at times fallen below the Brazilian minimum and the Brazilian Coffee Institute had to purchase coffee in order to support the market. In the first three months of the current season (July-September 1957) the Coffee Institute invested Cr$4 billion in the purchase of some two million bags of coffee. Even heavier purchases by the Institute were made in the last quarter of 1957, some Cr$6.4 billion being drawn from the exchange profit account for financing coffee purchases by the Institute. In all, the coffee stockpiling program has resulted in an expenditure of nearly Cr$10.5 billion in the first half of the current coffee season.

The coffee stockpiling by Brazil appears to have been already in excess of its commitments undertaken by the Mexico Agreement, whereby Brazil assumed the obligation to maintain coffee reserves equal to at least 20 per cent of exports made in the period October 1, 1957 - September 30, 1958. The agreement also mentioned that it was believed that Brazil's coffee exports during the remainder of the crop year October 1, 1957 - June 30, 1958 would not exceed 11.2 million bags. Since exports in the first quarter of the season (July-September) were 3.4 million bags, total exports in the 1957-58 crop season would amount at best to 14.6 million bags, or slightly less than in the previous season. Also, on this basis, the value of coffee to be withheld from the market in the current season should amount to 3.1 million bags, since the 1957-58 exportable crop was estimated at 17.7 million bags.

INTERNATIONAL MONETARY FUND

Date 3/10/58

TO: (1) Mr. J. Del Canto Room 807

(2) ..... Room .....

(3) ..... Room .....

Re: Brazil

FROM K. Kunday

Room 1031

Brazil -- Reform of the Exchange System

Certain basic defects in the present exchange system, sustained and aggravated by continuous inflationary developments, have contributed substantially to the recent balance of payments difficulties of Brazil. In addition to being very complex and cumbersome (there are some 12 groups of effective rates and 20 isolated auction markets), the present system does not provide enough remuneration to move exports. For instance, since 1955 the effective rate for coffee exports has been fixed at around Cr.37 per US dollar. 1/ In view of deteriorating world prices and of continuous domestic inflation, with a consequent 20 per cent average annual increase in the general price level, this effective rate has progressively proved to be unrealistic. This fact, plus the existence of a free market, may have provided strong incentives for evasion of surrender requirements on the part of coffee exporters. This unrealistic effective rate for coffee may have also a strong bearing in the accumulation of large coffee stocks. Other exports besides coffee have likewise suffered from overvalued rates. The average export rate is around Cr.50 per U.S. dollar, while the effective rate for the general category of imports has been twice that amount, or, recently even more than twice. Some imports have been getting effective rates of as much as Cr.300 per U.S. dollar, hence there has always been a very large spread between the export and import rates. On the other hand, a substantial part of imports, including such items as newsprint, fertilizers, insecticides and other preferential imports have received a very appreciated effective rate— roughly around Cr.50 per U.S. dollar.

In view of the basic imbalance in the present exchange structure, it may be said that any stabilization program involving measures in fiscal, monetary, and credit fields, must, to be successful, include a substantial revision of

1/ Since June 1957 there is also a fluctuating premium when exchange proceeds exceed the specified limit of $42 per bag.

the present exchange system. In any such revision certain basic factors peculiar to the Brazilian economy will have to be taken into consideration.

1. Coffee exports occupy an all-important position in the Brazilian balance of payments. In view of the large scale repercussions of any adjustment in the incomes of coffee producers, the delicate international relations involved in the coffee exports, and of the stockpiling problems, coffee exports will have to be treated separately in any revision of the exchange system.

2. Brazil's large backlog of past foreign debts necessitates large annual installments payments for the coming years. In any exchange reform an adequate amount of foreign exchange will have to be set aside to the order of the Government to meet this commitment.

3. Effective rates for certain essential imports such as petroleum products will require gradual adjustment in order to prevent possible political disturbances that may be caused by sudden large increases in their landed costs.

4. In any exchange reform an adequate differential between the average buying and selling rates will have to be maintained in order to provide funds to finance the requirements of coffee stockpiling and to help to reduce import demand for certain less essential products. In this connection it should be emphasized that the above-mentioned differential must not be so excessive as to encourage evasions, which is one of the big defects of the present system.

Within the broad requirements enumerated above, various alternatives for the revision of the present Brazilian exchange reform may be considered. Some of the principal ones are summarily discussed below.

1) The revision of the exchange system may be effected within the existing framework. Under this alternative a new and more depreciated effective rate will be set for coffee exports. This rate may be around Cr.60-65 per U.S.

dollar. Other exports may be given a new rate around Cr.90 per U.S. dollar, which corresponds roughly to the level of free market and to the effective rates applied to general category imports before the recent sudden jump in auction prices for this category took place.

As to imports, various preferential imports may be combined in one or two categories with effective rates set at a level more depreciated than the present one. Gradually these rates may be increased so as to correspond with the effective rate applied to the general import category. The auction system for the general category imports and for the special category could be maintained with some simplification and a more steady allocation of foreign exchange, which would eliminate sudden jumps in the auction premiums. The above alternative has the merit that it does not necessitate any important change in the existing laws. Furthermore, although such a revision would not cushion the balance of payments against imminent inflation it could help to lessen the impact of the present difficulties as a temporary measure.

ii) The second alternative would provide for a more radical overhauling of the exchange system. In this alternative, a new and more depreciated fixed affective rate (say around Cr.60-65 per U.S. dollar) would be established for coffee exports. All the remaining exports, together with the receipts from invisibles and capital inflow, will be channelled through a free market which will operate under an exchange certificate system. The present free market will be abolished. All payments at present passing through it and all imports, except the most essential, including petroleum products, will also be channelled through the new free market. The imports of petroleum products will get a fixed effective rate more depreciated than the present one but below the free market rate. The effective rate for petroleum imports will be gradually increased and eventually will be put on the free market as other

imports. The large part of imports only will be subject to the free market rate. Certain luxury imports, roughly corresponding to the present special import category, will be made subject to higher effective rates. This could be achieved by leviying either a surcharge on them in addition to the free market rate, or by auctioning the import licenses which will give access to the free market. In the second alternative discussed above, the present auction system will be abolished.

iii) The third alternative would include a more comprehensive free market. An exchange certificate will be issued in an amount up to 80 per cent of the foreign exchange surrendered by the coffee exporters. For cocoa, and raw cotton exports, the above percentage could be fixed at 90. All the other exports will receive certificates equivalent to 100 per cent of the foreign exchange surrendered. For the retained 20 per cent or 10 per cent of foreign exchange mentioned above, exporters will receive the official rate. All the exchange certificates which represent foreign exchange will be freely negotiable in the market. Receipts from invisibles and from inflow of capital will also be channelled through this market. All foreign exchange payments will be financed with the purchase of exchange certificates. The essential imports (including the bulk of the present preferential imports) will receive only the certificate rate. In the case of most essential imports such as petroleum products and newsprints, subsidies could be arranged in order to bring about a gradual adjustment in their costs. All imports outside the essentials will be divided into two categories, roughly around the lines of present day general and special import groups. Surcharges of 30 and 60 per cent, in addition to the free market rate, will be applied to these categories respectively. Instead of surcharges, the auctioning of the import licenses could also be considered. The present free market arrangements and the auction system will be abolished.

The above three alternatives are offered as examples that could be used in approaching the problem of revising the present system. Obviously, these alternatives are not exclusive, and various modifications and/or combinations thereof could be considered depending on the objections raised by the authorities or legal difficulties encountered. Needless to say, in all cases the success of the reform, whichever way, will largely depend on simultaneous measures in fiscal, monetary, and credit fields taken to bring about stability to the economy.

INTERNATIONAL MONETARY FUND

Brazil--Technical Assistance Mission--Briefing Paper

Prepared by the Western Hemisphere Department

March 7, 1958

Brazilian economic situation

The economic position of Brazil seems to be extremely precarious. In 1957 the banking figures indicate that the credit expansion was more rapid than in earlier years. Money supply expanded by 34 per cent, an increase half as rapid again as the increase in 1956. (See Annex.) This expansion took place despite a substantial loss of foreign exchange reserves--in contrast with an addition to reserves in 1956.

The Federal Government budget has been responsible for a major part of the expansion in 1957. Private credit in absolute terms expanded more but the rate of expansion was much less. This slower rate of growth of private credit seems partly to be due only to a delayed reaction. Private banks have acquired very substantial excess reserves in December and the rate of private credit expansion is now quickening.

Formerly part of the inflationary pressures originating in credit expansion were offset by profits on exchange operations. In the last quarter of 1957, this contractionary effect was sharply reversed as the exchange profits account was drawn down to finance the stockpiling of coffee. Financing of coffee stockpiling is not included in the figures of bank credit to the private and public sectors.

For the early months in 1958 no over-all banking figures are yet available, although partial January figures indicate a continued deficit for the Government at a greater rate than a year earlier.

Fiscal data for the full year 1957 are not yet available. However, the Federal Government's use of bank credit in the last quarter of 1957 was more than double the rate of a year earlier. The only substantial factor which is known as likely to improve the position in 1958 is that the rise in prices may increase revenues while wage expenditures stay unchanged. In addition, there may be somewhat improved tariff collection as the new tariff law had only been in force six weeks before the fourth quarter began. On the other hand, tariffs later will tend to fall because import volume should fall significantly in the course of the year.

The net loss of foreign exchange assets in 1957 amounted to about $100 million in addition to $37 million from the IMF. This reversed operations in the previous year when reserves increased by $100 million and $28 million was repaid to the Fund. The reversal was due about equally to increase in imports and a reduction in exports--a reduction principally arising from a fall in the volume of coffee exports.

The loss of reserves occurred in the first nine months. Net reserves (excluding addition due to the IMF drawing) improved $40 million in the last three months of 1957. But early in 1958 this brief gain was rapidly lost, when in January a drawdown of $58 million occurred. Reacting to this loss, the authorities have reduced the exchange supplied to the auction and the auction premium has sharply increased in February. On February 14 with the amount of exchange auctioned in Rio de Janeiro down only 20 per cent below the level in November 1957, the agio for the general category was 115 compared with an agio of 60 in November 1957.

The extraordinary pressure on reserves in January and February was related to sharp falls in coffee exports. Maintenance of the price for Brazilian coffee in face of a substantial decline in mild coffees, which has eliminated the normal premium of milds over Brazilian coffees, has led to speculation on the possibility of a fall in dollar prices of coffee. This has caused the trade to be abnormally low. To this extent, the problem is temporary. But coffee sales may continue low until the size of and policies in connection with the 1958-59 coffee crop are known. In other years these factors have kept trade low through May and last year to the end of September. Further, there is continuing concern about the level of coffee prices as present prices are still substantially above the long-run average level.

Terms of Reference

1. The principal task of the mission will be:

   a. To ascertain the causes of inflation and the current external payments difficulties; and

   b. In accordance with the Fund's policy with respect to drawings beyond the first two tranches, to ascertain Brazil's program for dealing with these problems.

2. In conformity with the paragraph above, the mission plans to proceed as follows:

   a. Investigate the budgetary situation and inquire as to the Government's plans to eliminate or reduce the budgetary deficit;

   b. Obtain the facts with respect to Brazil's external indebtedness and ascertain the Government's policy with respect to the incurring of further obligations in the future;

   c. Ascertain the role of bank credit in the Brazilian inflation and measures which the Government proposes to take to avoid excessive bank credit expansion;

d. Without entering into the substance of the Government's policy on coffee, to examine the financing required to carry out the Government's stockpiling plans and how the Government proposes to finance this program without recourse to inflationary financing; and

e. Ascertain the exchange policies which the Government plans to pursue in order to correct the current balance of payments disequilibrium.

f. Ascertain whether the authorities consider that the time is propitious for a banking reform, involving primarily the establishment of a central bank.

Analysis of Operations of the Bank of Brazil, 1956 and 1957

(In billions of cruzeiros)

	1956	1957	Outstanding End of 1957
1. Credit to public sector	6.9	30.7	72.9
(a) Federal Government	24.4	38.8	105.3
(b) State and local governments	1.3	-1.4	14.3
(c) Official entities	-0.2	1.1	4.8
(d) Commodity operations, other than coffee	1.2	2.9	4.3
(e) Exchange profits account			
(1) Net profits from exchange system (profit (-), loss (+))	-18.8	-17.4	-64.3
(2) Purchase of coffee and other charges	1.9	12.6	26.0
(f) Deposits of official entities	-2.9	-5.9	-17.5
2. Credit to the private sector	10.1	16.7	91.8
(a) Carteira Agricola e Industrial	4.3	7.6	34.3
(b) Carteira Credito Geral	5.8	9.1	57.5
3. Capital and reserves and other operations	-3.5	-6.7	
4. Net expansion (1 + 2 + 3)	13.1	40.7	
5. Financed by:			
(a) Currency in the hands of the public	10.4	14.1	81.6
(b) Private demand deposits with Bank of Brazil	1.7	4.5	16.0
(c) Net operations with commercial banks:	4.5	20.3	37.2
(1) Deposits with Bank of Brazil	3.4	18.1	38.8
(2) Currency holdings	2.0	1.4	11.6
(3) Rediscounts from Bank of Brazil (-)	-0.9	0.8	-13.2
(d) Change in net exchange reserves (increase (-), decrease (+))	-3.5	1.8	0.8
Total	13.1	40.7	

DRAFT
3/7/58

Dear Herculano:

I am using the opportunity of Al Costanzo's visit to Rio to have him discuss with you the possibilities of selecting an officer of SUMOC to serve with us for some time.

As you recall, when Mr. Jacobsson and I visited Rio last August, you raised the question of increasing the number of Brazilians in our staff. We did not have an opening then, but we hope a vacancy might develop by mid-year. While I cannot guarantee that we can hire a Brazilian, we would like to do our best to recruit a good one. From this point of view, Al Costanzo will review with you what candidates might be available. We realize that your best people might not wish to leave SUMOC. Perhaps we could think of bringing one of the bank technicians for two to three years. You might wish to discuss this with Al.

With best wishes and personal regards, I remain

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe, Departamento Economico
Superintendency of Money and Credit
Rio de Janeiro, Brazil

Mission's Terms of Reference

The principal task of the mission will be:

1. To obtain the most recent information on the present status of the Brazilian economy and finances and the prospects for the remainder of the year; and

2. In accordance with the Fund's policy with respect to drawings beyond the first two tranches, to ascertain what measures the Brazilian Government is prepared to take to correct the balance of payments equilibrium in accordance with the Fund's;

3. The measures which will be required to meet the Fund requirements with respect to Fund drawings beyond the first two tranches as nearly as possible should be the following:

   a. Internal Stabilization Measures

      1. Budgetary program which can be financed from proceeds of bond issue approved by Congress. Since the yield of this issue will probably not exceed Cr$10 billion, the 1958 budgetary cash deficit should not exceed Cr$10 billion. This will probably require a reduction in government expenditures in the 1958 budget of approximately Cr$15 billion. To assure implementation of such a program, a commitment by the Government not to borrow from the Central Bank in 1958 should be part of any Fund financial assistance to Brazil.

      2. Ceilings should be established on the outstanding loans and advances of the two banking departments of the Bank of Brazil, the General Credit Department and the Agricultural and Industrial Credits Departments.

      3. The exchange profits accruing in 1958 should be earmarked exclusively for the financing of the Government's coffee stockpiling policy and any remaining balance sterilized as needed to offset any unexpected inflationary pressures arising in 1958.

      4. Measures should be taken to absorb the existing excess reserves of the commercial banking system.

   b. Exchange Policy Measures

      1. The preferential list of imports (amounting to approximately $600 million on an annual basis), which are presently imported at an effective rate of about Cr$52 compared with about Cr$130 for "general category" imports, should be abolished and all such commodities transferred to the "general" category.

Not used

INTERNATIONAL MONETARY FUND

Brazil—Technical Assistance Mission—Briefing Paper

Prepared by the Western Hemisphere Department

March 6, 1958

The economic position of Brazil seems to be extremely precarious. In 1957 the banking figures indicate that the credit expansion was more rapid than in earlier years. Money supply expanded by 34 per cent, an increase half as rapid again as the increase in 1956. (See Annex.) This expansion took place despite a substantial use of foreign exchange reserves—in contrast with an addition to reserves in 1956.

The government sector has been responsible for a major part of the expansion. Credit to the Government grew at the phenomenal pace of 61 per cent. Private credit in absolute terms expanded more but the rate of expansion was much less. This slower rate of growth of private credit seems partly to be due only to a delayed reaction. The private banks have acquired very substantial excess reserves in December and the rate of private credit expansion is now quickening.

Formerly part of the inflationary pressures originating in credit expansion were offset by profits on exchange operations. In the last quarter of 1957, this contractionary effect was sharply reversed as the exchange profits account was drawn down to finance the stockpiling of coffee.

For 1958 no over-all banking figures are yet available, although partial January figures indicate a continued deficit for the Government at a greater rate than a year earlier.

Fiscal data for the full year 1957 are not yet available. It is believed that the banking data may this year be a close approximation to the fiscal deficit as there has apparently been some attempt to pay arrears. This possibility renders doubtful the extrapolation of fourth quarter figures. Subject to this reservation on arrears, it should be noted that fourth quarter use of bank credit was at more than double the rate of a year earlier. The only substantial factor which is known as likely to improve the position in 1958 is that the rise in prices may increase revenues while wage expenditures stay unchanged. In addition, there may be somewhat improved tariff collection as the new tariff law had only been in force six weeks before the fourth quarter began. On the other hand, tariffs later will tend to fall because import volume should fall significantly in the course of the year.

The net use of foreign exchange assets in 1957 amounted to about $100 million in addition to $37 million from the IMF. This reversed operations in the previous year when reserves increased by $100 million and $28 million was repaid to the Fund. The reversal was due about equally to increase in imports and a reduction in exports—a reduction principally arising from a fall in the volume of coffee exports.

The loss of reserves occurred in the first nine months. Net reserves (excluding addition due to the IMF drawing) improved $40 million in the last three months of 1957. In 1958 this brief gain was rapidly lost, when in January a drawdown of $58 million occurred. Reacting to this loss, the authorities have reduced the exchange supplied to the auction and the auction premium has sharply increased in February. On February 14 with the amount of exchange auctioned in Rio de Janeiro down only 20 per cent below the level in November 1957, the agio for the general category was 115 compared with an agio of 60 in November 1957.

The extraordinary pressure on reserves in January and February was related to sharp falls in coffee exports. Maintenance of the price for Brazilian coffee in face of a substantial decline in mild coffees, which has eliminated the normal premium of milds over Brazilian coffees, has led to speculation on the possibility of a fall in dollar prices of coffee. This has caused the trade to be abnormally low. To this extent, the problem is temporary. But coffee sales may continue low until the size of and policies in connection with the 1958-59 coffee crop are known. In other years these factors have kept trade low through May and last year to the end of September. Further, there is continuing concern about the level of coffee prices as present prices are still substantially above the long-run average level.

Stabilization program

To put Brazilian finances into satisfactory order will be a major task requiring considerable political courage. From the banking figures, it would seem that the government sector deficit is currently of the order of Cr$40 billion per annum (equivalent at an exchange rate of Cr$100 to US$400 million). To end this deficit without relying on price increases to raise revenue will require substantial taxation increases or sharp reduction in expenditures. In view of the tendency to falling export earnings and the need to reduce the over-all real level of expenditures, it seems that realistically most attention should be given to expenditure cuts. It is to be noted that about one third of the government sector deficit arises from losses in operation of state-owned railroads. It would be preferable for this deficit to be eliminated directly but failing this, a surplus has to be created in the balance of the government operations.

It is to be emphasized that the virtual elimination of the public sector deficit is absolutely essential to the longer run success of any stabilization program. With a relatively underdeveloped banking system, the Government can only rely on currency as a certain source of financing its deficit. The private banks reserve requirement is only 14 per cent, leaving 86 per cent of deposits for relending. As currency is only Cr$80 billion, 5 per cent credit expansion would permit only Cr$4 billion of deficit financing--one tenth of the present rate--and in the future, with the need to rebuild foreign exchange reserves, even this deficit would be excessive.

For the short run, it is clearly unrealistic to expect the total elimination of the deficit. Further, it is to be expected that some balance of payments deficit will continue in view of the weakening coffee position. In the next year the balance of payments deficit (including in this all use by the

Government of foreign loans) might be expected to be about $100 million. (The justification of this amount will be discussed later.) This, at an exchange rate of Cr$100, would produce Cr$10 billion. Together with a Cr$4 billion increase in currency, the public sector deficit could reach as much as Cr$14 billion, on these assumptions. This would permit, consistent with a 5 per cent increase in money supply, an increase of Cr$10 billion in private credit.

The profits of the exchange system might in theory be available to temper the problem of reducing the public sector deficit. However, due to the coffee stockpiling program, it seems unrealistic to expect the exchange system to cover more than the stockpiling finance. Indeed, it will probably require some changes in the system to achieve sufficient profits for this purpose--a factor to be borne in mind in the later discussion of the exchange system.

To limit the expansion of private credit to the amount compatible with 5 per cent growth of banking assets will raise many problems. Cr$10 billion is less than one quarter of the present rate of expansion. Further, due to the existence of excess reserves--and to the ability of the Bank of Brazil to use exchange profits and reserve deposits for credit expansion--the problem is rendered more difficult. It may well be necessary to set direct credit ceilings if the growth is to be limited adequately. For the private banks, it would be greatly preferable for the control to be by reserve requirements if the law can be changed--but this seems likely to be too difficult to negotiate. A change in reserve requirements would also have to be backed by changes in rediscount policy, either in the form of greatly increased rediscount charges or of rediscount ceilings.

Coffee stockpiling policy will be of critical importance. In general, it is considered desirable for the Fund to keep completely outside advice in this sphere. The concern of the Fund should be limited to ensuring that any stockpiling be financed from Brazilian sources. However, some assurances will probably be needed that the Government will take measures to obtain a continuous flow of coffee exports within the established export quotas under the Mexico Agreement. This will require some attention to the relationship between Brazilian and mild coffee prices.

The reform of the exchange system is, naturally, earnestly desirable if the Fund is to participate. The present emergency has increased the rate spread to an extreme degree. On the import side, rates now vary from Cr$20 to Cr$320. Some reduction in the spread is probably essential if the Fund is, in effect, to underwrite the system by providing resources for its maintenance. On the other hand, the spread between buying and selling rates is equally essential (in the absence of the legal authority to levy export taxes) if coffee financing is to be regularized.

In these circumstances, the Fund should press for the transfer of all import commodities now receiving preferential treatment (about Cr$52 per U.S. dollar) to the general category. It should be recognized, however, that legal as well as social and political obstacles may prevent the complete elimination of the preferential list. Equally on the export side, the non-coffee exports might be accorded treatment more closely related to the new average ceiling

rate. If the bulk of preferential imports can be transferred to the "general category" market, it might be possible to issue certificates for exports other than coffee which would be negotiable in the "general category" import market. Coffee, however, should be kept in proportion below that rate adequate to finance the expected coffee stockpile. The coffee rate should probably continue to be a fixed rate at a level corresponding to the effective average exchange rate presently received by coffee, including the bonus for quality paid by the Coffee Institute plus an additional amount which would permit Brazilian coffees, with the present minimum price in cruzeiros, to sell abroad at the normal discount in relation to Colombian-type coffees.

In addition to a reform of the exchange system, attention has to be given to the operation of the system. In particular, the amount of exchange provided to the auctions will have to be restricted to a level compatible with the planned deficit in the balance of payments. This will require a thorough review of payments prospects and possibly ceilings on the amount of exchange to be sold in the auction markets. In the light of present knowledge, it would seem that a deficit is likely to be inevitable. It must, however, be limited to $100 million and preferably in the plan be kept smaller. The use of $100 million would seem to be a maximum compatible with retaining some reserve capacity to enter 1959 when coffee prospects may be equally uncertain.

The magnitude of the adjustments to be made by Brazil is such that it must be doubted that satisfactory decisions will be made in two weeks. It seems more reasonable to expect that the mission will be able to do no more than to acquaint the Brazilian authorities with the views of the Fund. While every effort must be made to work out a satisfactory arrangement for immediate participation, it would be wise, if the above doubts are proved justified, for the remaining Fund resources available to Brazil to be kept intact to back a later satisfactory plan. Participation on the basis of loose undertakings without basic reforms would fritter away the resources and render more difficult the eventual task of reform.

March 6, 1958

Brazil: Outline of Stabilization Program

I. Internal Stabilization Measures

(a) The basis of a stabilization program for 1958 should be an over-all currency program designed to restrict the issue of currency in 1958 to 8 per cent. This is the same target which was approved by the National Economic Development Council as the basis for the 1956 anti-inflationary program.

This proposed target compares as follows with the actual situation which has prevailed in previous years:

Currency Expansion, 1953-1957

	Per Cent Increase
1953	20
1954	26
1955	18
1956	17
1957	20
1958	8

The excessive expansion in the issue of paper money in recent years has been due primarily to two causes:

1. The Government's budgetary deficit, and

2. Excessive credit expansion on the part of the Bank of Brazil in favor of commerce, industry, and agriculture.

More recently, another important cause for the excessive issue of paper money has been the stockpiling of coffee by the Coffee Institute.

(b) Effective implementation of the above monetary plan will require ceilings on the following items:

1. Government borrowing from the Banco do Brasil;

2. Total loans of the Carteira de Credito Geral, Banco do Brasil;

3. Total loans of the Carteira de Credito Agricola e Industrial; and

4. Ceilings on total withdrawals from the "exchange agios" account of the Banco do Brasil.

(c) Ceiling on federal government borrowing from Banco do Brasil. This has been the major cause of the inflation in Brazil in recent years. Federal Government borrowing from the Banco do Brazil in the last five years has been as follows:

	Amount in Billion Cr$	Per Cent Increase
1953	5	24
1954	6	22
1955	8	25
1956	24	58
1957	39	59
1958 (Proposal)	0	0

The Government's plans for achieving a balanced budget in 1958 were upset by the final budget approved by Congress. The Government's budget as approved by Congress provides for expenditures of Cr$140 billion and receipts of Cr$130 billion, leaving a deficit of Cr$10 billion. A deficit of Cr$10 billion could probably be financed from the proceeds of the government bond issue authorized by Congress. However, estimates of revenue approved by Congress appear overly optimistic, perhaps by as much as Cr$25 billion. Hence, the problem is that of reducing expenditures by at least Cr$15 billion, leaving a deficit of Cr$10 billion to be covered by the bond issue.

The action required on the budgetary situation can be summarized as follows:

	1958 Budget Approved by Congress	Estimate of Actual 1958 Budget Situation	Proposed 1958 Budget Under Stabilization Program
	(In billions of cruzeiros)		
Expenditures	140	140	125
Revenues	130	115	115
Fiscal deficit	10	25	10
Proceeds from bonds	10	10	10
Cash deficit	0	15	0

(d) Ceiling on loans by the Carteira de Credito Agricola e Industrial. The expansion in credit by this Carteira, next to the government budget, has been perhaps one of the most serious causes for the Brazilian inflation. The credit expansion of this category and the proposed target for 1958 is as follows:

I,(e)

(e) Ceiling on loans by Carteira de Credito Geral. The increase in the loans of the carteira Geral have been excessive in recent years as is shown in the table below.

	Amount (Billions of Cr$)	Per Cent Increase
1953	2.9	14
1954	12.6	52
1955	5.7	15
1956	5.8	14
1957	9.1	19
1958 (Proposed ceiling)	4.6	8

An increase of 8 per cent for 1958 should be adequate to cover any needs arising from real increases in production.

	Amount (In billions of Cr$)	Per Cent Increase
1953	3.1	24
1954	4.4	27
1955	1.9	9
1956	4.3	19
1957	7.6	29
1958	3.4	10

(f) Use of "exchange agios" account. An estimate should be made of the funds which will be received by the "agios" account during 1958 and a program worked out as to the use of these funds consistent with the achievement of the established currency target. Funds received in this account in 1958 should probably be reserved exclusively to finance the stockpiling of surplus coffee and the balance, if any, held as a contingency reserve for possible shortfalls in the various sectors of the stabilization program.

II. Measures to Curtail Demand for Imports

(a) In view of the inflation of the last several years, the import rate for the "privileged" category of commodities which are imported outside the auction market is too low and leads to over-importation as well as unfair competition to domestic production. It is, therefore, proposed that all goods presently imported outside the auction markets be transferred to the "general" category. This measure would also have the advantage of increasing exchange profits (agios) and provide funds for financing coffee stockpiling as well offsetting other inflationary factors.

The effect of this recommendation would be as follows:

	Value of Imports 1957 1/	Present Import Rate	Import Rate Under Proposed Changes (Auction rate for new general category, probably about Cr$100)
	(Cruzeiros per U.S. dollar)		
Government imports	40	51.32	100
Imports by government enterprises	55	51.32	100
Petrobras:			
Crude petroleum	54	51.32	100
Other	54	51.32	100
Petroleum	210	53.82	100
Wheat	115		100
Newsprint & printing material	48	22.07	100
Books, magazines and film	10	51.32	100
Railroad equipment	30	51.32	100
Fertilizers & insecticides	n.a.	51.32-52.42	100
Other imports	50	51.32	100

1/ Estimate based on nine months' data.

(b) Impact of proposed changes in import rate

a. On cost of living. The shifting of commodities from the privileged group to the general category will involve only two items with any substantial impact on the cost of living index: bread and petroleum products. The weight of bread in the cost of living index is 5.5 per cent. Although precise calculations would need to be made, the incidence on the cost of living of a shift of wheat to the general category, assuming a rate for the general category of around Cr$100 under the new system, would be very small. Since imported wheat constitutes about 45 per cent of domestic consumption, a doubling in the cost of imported wheat would probably mean an increase of less than 20 per cent in the price of bread. Considering that the weight of bread in the cost of living is only 5 per cent, the increase in the cost of living from such a change would be about 1 per cent.

The increase in the price of petroleum products resulting from a depreciation of the import rate for petroleum would affect only the transportation component of the cost of living, which has a weight of 2 per cent in the total index. Hence, even here the incidence on the cost of living would not be significant.

b. On government budget. Government imports in the first nine months of 1957 amounted to $31.3 million, an annual rate of approximately $40 million. The impact in shifting these payments to the general category auction market, assuming a resulting effective rate of about Cr$100, would be about Cr$2 billion. This is not a large figure in terms of the over-all budget. Government payments for other than imports is not known and an additional budgetary impact would accrue from this source as well.

c. On government enterprises, including Petrobras and railroads. Imports by government enterprises, including the railroads and Petrobras' imports other than petroleum and petroleum products, amounted to $103 million in the first nine months of 1957, an annual rate of approximately $140 million. An increase in the rate for these items by Cr$50 per U.S. dollar would mean an increase of Cr$7 billion in the cruzeiro cost of these imports. This would have to be absorbed in large part by a reduction in investment plans. Railroad equipment financed by the Eximbank, however, would not be affected and any adjustment in petroleum prices affecting the profits of Petrobras in absolute terms would offset to some extent the downward adjustment in investment plans referred to above.

(c) Maximum ceilings should be established on the amount of U.S. and ACL dollars which the Banco do Brasil will offer in the general category and special category auction markets. The ceilings will be separate for each auction market and currency (U.S. dollar and ACL dollar). These ceilings will be determined on the basis of an exchange budget to be drawn up for the remaining months of the first half of 1958 and the last half of 1958.

(d) Foreign resources will be used in the general category auction market only to the extent necessary to avoid temporary excessive fluctuations in this market due to sudden sharp reductions in coffee exports.

(c) The established ceilings cannot be exceeded until the lines of credit abroad for both U.S. and ACL dollars have been restored and monthly export proceeds are in excess of a determined amount, say the average monthly exchange receipt level programmed in the exchange budget.

III. Measures to Increase and Diversify Exports

(a) Exchange proceeds from exports will continue to be surrendered to the Banco do Brasil as at present. The Banco do Brasil will issue exchange certificates against exchange surrendered for all exports except coffee. These certificates will be negotiable in the auction market for general category imports for a period of two weeks. Thereafter, the certificates must be surrendered to the Banco do Brasil at the rate prevailing in the general category auction market on the date of issue of the certificate.

(b) Exchange proceeds from coffee will continue to be surrendered to the Banco do Brasil at a fixed rate. This fixed rate will be fixed at a level corresponding to the effective average exchange rate presently received by coffee, including the bonus paid by the Coffee Institute for quality plus an additional adjustment which would permit the maintenance of the minimum price for coffee in cruzeiros, assuming a decline in the New York price to restore the normal relationship between the price for Colombian and Brazilian coffee. A gradual depreciation of the coffee rate by, say, 1 per cent per month, could be considered, if necessary or desirable for political reasons.

(c) The proposals under (a) and (b) above would provide greater incentives for the expansion of exports while at the same time they avoid passing the same benefits on to coffee which would possibly spur on greater production and worsen the imbalance between coffee demand and supply. The higher rate for exports, say Cr$100, would mean an increase in the price of cotton. This is a desirable development in that it would help restore the position of cotton as a major export commodity. The increase in cotton exports as well as other exports resulting from a remunerative price for these commodities would help make up for the difficult world market position of coffee and reduce the extreme reliance of the Brazilian economy on one export crop. The increased export rate, however, would result in a higher price for cotton which would have some impact on the cost of living through the increase in the cost of raw cotton and costs of cotton textiles.

Brazil: Possible Program for Restoring Balance of Payments Equilibrium

I. Exchange System

1. Exports

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2. Imports

a. All commodities presently imported at a more favorable rate than the effective rate for general category imports will be transferred to the general category list.

b. Commodities presently classified as "general" category and "special" category will remain in their present classification and will continue to be imported under present procedures.

3. Capital and invisibles

All capital and invisible transactions will be conducted in the existing free market for capital and invisibles.

4. Impact of proposed changes in exchange system

a. On cost of living. The shifting of commodities from the privileged group to the general category will involve only two items with any substantial impact on the cost of living index: bread and petroleum products. The weight of bread in the cost of living index is 5.5 per cent. Although precise calculations would need to be made, the incidence on the cost of living of a shift of wheat to the general category, assuming a rate for the general category of around Cr$100 under the new system, would be very small. Since imported wheat constitutes about 45 per cent of domestic consumption, a doubling in the cost of imported wheat would probably mean an increase of less than 20 per cent in the price of bread. Considering that the weight of bread in the cost of living is only 5 per cent, the increase in the cost of living from such a change would be about 1 per cent.

The increase in the price of petroleum products resulting from a depreciation of the import rate for petroleum would affect only the transportation component of the cost of living, which has a weight of 2 per cent in the total index. Hence, even here the incidence on the cost of living would not be significant.

b. On government budget. Government imports in the first nine months of 1957 amounted to $31.3 million, an annual rate of approximately $40 million. The impact in shifting these payments to the general category auction market, assuming a resulting effective rate of about Cr$100, would be about Cr$2 billion. This is not a large figure in terms of the over-all budget. Government payments for other than imports is not known and an additional budgetary impact would accrue from this source as well.

c. <u>On government enterprises, including Petrobras and railroads</u>. Imports by government enterprises, including the railroads and Petrobras' imports other than petroleum and petroleum products, amounted to $103 million in the first nine months of 1957, an annual rate of approximately $140 million. An increase in the rate for these items by Cr$50 per U.S. dollar would mean an increase of Cr$7 billion in the cruzeiro cost of these imports. This would have to be absorbed in large part by a reduction in investment plans. Railroad equipment financed by the Eximbank, however, would not be effected and any adjustment in petroleum prices affecting the profits of Petrobras in absolute terms would offset to some extent the downward adjustment in investment plans referred to above.

II. Exchange Policies

(a) Maximum ceilings should be established on the amount of U.S. and ACL dollars which the Banco do Brasil will offer in the general category and special category auction markets. The ceilings will be separate for each auction market and currency (U.S. dollar and ACL dollar). These ceilings will be determined on the basis of an exchange budget to be drawn up for the remaining months of the first half of 1958 and the last half of 1958.

(b) Foreign resources will be used in the general category auction market only to the extent necessary to avoid temporary excessive fluctuations in this market due to sudden sharp reductions in coffee exports.

(c) The established ceilings cannot be exceeded until the lines of credit abroad for both U.S. and ACL dollars have been restored and monthly export proceeds are in excess of a determined amount, say the average monthly exchange receipt level programmed in the exchange budget.

III. Internal Stabilization Measures

(a) An over-all monetary plan should be formulated with a currency expansion target of 5 per cent for 1958.

(b) The monetary plan should have the following ceilings, to ensure achievement of the currency target:

(1) Ceiling on government borrowing from the Banco do Brasil;

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(b). The existing liquidity position of commercial banks will need to be studied and measures taken to absorb excessive liquidity.

Brazil: Outline of Possible Program for Restoring Balance of Payments Equilibrium

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Brazil

Exchange

So as to ensure equilibrium in Brazil's balance of payments, the weekly amount of convertible exchange offered for auction was reduced at the beginning of this year by one million dollars. An official announcement by the Finance Ministry said that in drawing up the exchange budget for the first half-year of 1958, as provided for in Art. 82 of Decree No. 42,820 of 16th December 1957, it was found advisable to reduce by one million dollars weekly the auctions of freely convertible foreign currencies for the import trade. No further reductions would be made during the half-year because the present cut was based on the most cautious estimates; availabilities might even be increased if the receipts of exchange allowed.

The amount of U.S. dollars for general category imports sold in Rio de Janeiro has been reduced from US$1,250,000 to US$1,034,000 per week, and the quotation has risen in consequence by 50 per cent from Cr$66/68 on 18th December to Cr$101/103 on 29th January 1958. Offers of U.S. dollars for special category imports have been cut from US$39,000 to US$20,000 weekly, but quotations have risen by only 8 per cent during this period, from Cr$223 to Cr$243. It is believed that this increase was small because of the anticipated special offers of foreign currency of an equivalent of one million dollars per month for the importation of motor cars, as prescribed in the new Customs tariff law of August last year.

Auctions of ACL dollars have been reduced in the general category from 1,018,000 to 815,000 dollars, and in the special category from 32,000 to 25,000 dollars; quotations have risen from Cr$63/65 and Cr$184/185, respectively, on 17th December 1957 to Cr$86/89 and Cr$195 on 28th January 1958.

The Exchange Department of the Banco do Brasil is reported to have again increased the minimum bids for auctions held from 14th January. The new minima in the general category are Cr$76.80 for U.S. dollars and US$ACL, Cr$64 per dollar for agreement currencies, Cr$9.27 per Danish kroner and Cr$12.38 per Swedish kronor: in the special category the minima are Cr$176 for agreement dollars and Cr$25.49 and Cr$34.03 per Danish kroner and Swedish kronor, respectively.

Source: Bank of London and South America Fortnightly Review, February 15, 1958

Brasil

Exchange

So as to ensure equilibrium in Brasil's balance of payments, the weekly amount of convertible exchange offered for auction was reduced at the beginning of this year by one million dollars. An official announcement by the Finance Ministry said that in drawing up the exchange budget for the first half-year of 1958, as provided for in Art. 82 of Decree No. 42,820 of 16th December 1957, it was found advisable to reduce by one million dollars weekly the auctions of freely convertible foreign currencies for the import trade. No further reductions would be made during the half-year because the present cut was based on the most cautious estimates; availabilities might even be increased if the receipts of exchange allowed.

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Source: Bank of London and South America Fortnightly Review, February 15, 1958

Mr. C. David Finch February 28, 1958

E. Zayas

The Finance Minister of Brasil's Statement on Policies and Intentions of the Brasilian Government made in EBM 57/49, October 2, 1957

It will be recalled that at meeting 57/49 on October 2, 1957 when the Executive Board took up a request from Brasil for a drawing of $37.5 million from the Fund, the Brasilian Minister of Finance made a statement on policies and intentions of the Government which influenced the Board's decision to express no objection to the request. This memorandum summarizes the policies and measures that according to that statement the Brasilian Government intended to pursue with a review of the actual implementation of the program:

1. "It will be the Government's policy in the coming months of the coffee export season to restore a substantial part of the exchange losses experienced during 1957."

In the first nine months of 1957 Brasil lost some $178 million in foreign exchange reserves. In the remaining three months of 1957 Brasil recovered some $40 million, excluding the drawing of $37.5 million from the Fund. This improvement was chiefly due to exchange receipts from coffee and cocoa exports, which showed a substantial increase in the last quarter of 1957. However, in January 1958 Brasil sustained again a sharp drop in reserves, of $54 million, entirely wiping out the gain recorded in the three previous months.

2. "For this purpose (No. 1) the Government intends to gradually depreciate the import rate for privileged imports and is prepared to see the exchange rate in the auction market depreciate if required to achieve this exchange reserve goal."

The provisions contained in the tariff law, introduced on August 14, 1957, pertaining to the exchange system established that no payments could be made at an effective rate lower than the average effective export rates. Pursuant to this provision the effective import rate for all government payments and preferential imports was increased to Cr$51.32 per US$1 on September 13, 1957--and is still in effect--from Cr$43.82 previously in effect. An exception is, however, being made to newsprint imports to which the rate of Cr$18.82 continued to apply until the end of 1957. Starting January 1, 1958 it was to be increased each semester by 10 per cent or 25 per cent, depending on the importing printer, until the rate has reached the level of the effective rate applied to the other preferential imports.

The average effective exchange rate in the auction market, for imports in the general category, showed the following trend in the last six months:

		Cr$ per US$1 (approximately)
1957	June	83
	September	90
	October	86
	November	84
	December	91
1958	January	109
	February (11)	134

The substantial depreciation of the rate in January and February 1958 appears to be associated with a reduction in the amount of exchange offered in the auction market.

3. "It is the Government's intention to avoid inflationary borrowing in the remainder of 1957. Government borrowing from the Banco do Brasil will not be in excess of an amount equivalent to the current increase in net exchange differential profits during the remainder of the year."

The consolidated balance sheet of the monetary authorities shows that credit to the Treasury increased by Cr$22.7 billion in the period October-December 1957 (from Cr$82.3 to Cr$10.50 billion between the end of September and the end of December 1957). In this period exchange profits amounted to Cr$2.3 billion (agios minus export bonuses), but out of the agios account was paid Cr$6.4 billion to finance chiefly coffee purchases by the Brazilian Coffee Institute. The balance in this account thus declined by about Cr$4.1 billion in the last quarter of 1957. This amount, added to the increase in credit to the Treasury, resulted in a total monetary expansion of about Cr$27 billion in the last three months of 1957.

4. "The Government is determined to firmly insist on attaining a balanced budget [for the 1958 fiscal year] from Congress."

The Administration submitted to Congress a proposed budget for 1958 with revenues and expenditures estimated at Cr$121 million. Congress made numerous revisions to the Administration's estimates, and, finally, the budget law for 1958 was passed with revenues estimated at Cr$130.2 billion and expenditures at Cr$140.5 billion, a deficit of Cr$10.3 billion. This contemplated deficit compares favorably, however, with the cash deficit of around Cr$33 billion estimated for 1957.

5. "If Congress fails to pass a balanced budget, the Government is prepared to reduce public investment expenditures to the extent required to assure a balanced budget."

No information is available to the staff about the specific plan to implement this objective.

6. "The Government intends to firmly maintain the existing marginal reserve requirements and resist pressures for further rediscount facilities."

No change has been made in the reserve requirements for commercial banks. In the last three months of 1957 there was a contraction of Cr$800 million in the balance of advances from the monetary authorities to the commercial banks. A further decline of Cr$200 million was recorded in January 1958. At the same time private banks' deposits with the Bank of Brazil, to the order of SUMOC, increased by Cr$5.6 billion and other sight deposits of the private banks increased by Cr$9.1 billion in October-December 1957.

7. ". . Rediscount facilities to the banking department of the Banco do Brasil will also be highly restrictive."

The level of rediscounts to the Bank of Brazil increased from Cr$29.5 billion to Cr$40.4 billion between the end of September and December 1957, that is, by Cr$20.9 billion. In the same period of 1956 rediscounts to the Bank of Brazil increased by only Cr$5.4 billion.

8. "It is the goal of the Government to follow in the future such a policy ... which may contribute to the maintenance of a balance in the external position of the country."

As indicated by the answers to points 1 to 7, the records do not show that the Brazilian Government has been successful in putting through a policy designed to strengthen the external position of the country. The monetary expansion has been of a considerable magnitude in the last quarter of 1957 and originated chiefly from inflationary financing of the large Government deficit, and from financing of coffee purchases for stockpiling.

Brazil: Payments in Convertible Currency[1]

(In millions of U.S. dollars)

	1955	1956	1957	Total 1955-57	Index (Monthly average - 100)
1. All payments[2]					
January	43.8	59.6	73.3	176.7	95
February	43.8	41.0	73.3	158.1	85
March	43.7	36.2	57.9	137.8	74
April	37.1	55.4	74.9	167.4	90
May	45.2	89.8	76.5	211.5	113
June	56.1	49.5	88.5	194.1	104
July	64.2	59.5	72.9	196.6	105
August	36.8	62.6	72.9	172.3	92
September	44.5	52.9	73.8	171.2	92
October	47.5	68.9	78.3	194.7	104
November	69.4	63.0	82.1	214.5	115
December	60.4	103.8	8.30[3]	247.2	132
2. Payments for Imports					
January	33.3	40.0	53.6	126.9	97
February	33.3	29.6	55.5	118.4	91
March	33.3	28.0	45.4	106.7	82
April	25.5	32.5	52.8	110.8	85
May	32.7	83.0	53.1	168.8	130
June	41.8	32.6	50.4	124.8	96
July	39.2	40.2	51.0	130.4	100
August	28.5	46.3	51.0	125.8	96
September	30.6	35.0	48.0	113.6	87
October	27.2	48.8	47.7	123.7	95
November	59.4	43.3	58.4	161.1	124
December	47.8	46.7	58.0[3]	152.5	117

Source: Exchange Department, Bank of Brazil.

1/ Mostly U.S. dollars.
2/ Excluding repayments of drawings on lines of credit and the FRB loan.
3/ Preliminary.

Brazil: Receipts of Convertible Foreign Exchange 1/

(In millions of U.S. dollars)

	1955	1956	1957	Total 1955-57	Index (Monthly average=100)
January	37.7	78.0	87.4	203.1	104
February	37.7	110.3	62.0	210.0	107
March	37.7	31.7	50.2	119.6	61
April	48.2	77.2	47.2	172.6	88
May	28.4	70.5	46.0	144.9	74
June	65.7	106.0	48.4	220.1	112
July	47.0	64.6	74.1	185.7	95
August	82.0	69.8	74.2	226.0	115
September	73.6	68.2	58.4	200.2	102
October	89.3	73.8	84.1	247.2	126
November	55.2	61.0	91.8	208.0	106
December	53.6	71.2	90.0	214.8	110

Source: Exchange Department, Bank of Brazil.

1/ Mostly U.S. dollars. Exclude drawings on line of credit.

Brazil: Dollar Exchange Auctioned, by Month

(In millions of U.S. dollars)

	1954	1955	1956	1957
January	23.9	9.9	9.7	19.8
February	23.9	7.5	9.2	19.4
March	43.0	12.0	8.1	16.2
April	35.6	8.0	11.9	18.8
May	33.0	12.0	13.6	21.6
June	35.3	7.8	14.2	21.4
July	23.6	9.9	16.4	25.3
August	25.8	11.1	16.6	
September	19.9	11.0	15.8	
October	19.2	9.4	20.1	
November	9.5	10.8	16.4	
December	10.5	10.3	15.8	
Total	303.0	119.7	167.9	
Monthly Average	25.3	10.0	14.0	20.4 1/

Source: Superintendency of Money and Credit, Boletim, Rio de Janeiro (various issues).

1/ January-July average.

Brazil: Foreign Exchange Disbursements by Concepts

(In millions of U.S. dollars)

	1956		1957 (Jan.-Sep.)	
	Dollar Payments	All Currencies	Dollar Payments	All Currencies
I. Imports	506.2	1,091.7	460.9	946.0
1. Preferential imports	385.3	595.1	309.3	499.2
Government 1/	171.0	192.9	101.4	116.7
Petroleum	166.0	197.0	126.5	156.3
Other	42.3	205.2	81.4	226.2
2. Imports under auction system	120.9	496.6	151.6	446.8
II. Capital	218.1	326.8	176.9	248.1
Government's capital service payments	142.8	225.5	117.8	167.3
Private capital service payments	75.3	101.3	59.1	80.8
III. Other payments	22.7	47.2	26.2	65.5
Total exchange sales	747.0	1,465.7	664.0	1,259.6

Source: Exchange Department, Bank of Brazil.

1/ Including petroleum imports by Petrobras.

Brasil: Foreign Exchange Disbursements, by Concepts

(In percentages of total)

	1956		1957 (Jan.-Sep.)	
	Dollar Payments	All Currencies	Dollar Payments	All Currencies
I. Imports	68 (100)	74 (100)	69 (100)	75 (100)
1. Preferential	52 (76)	40 (54)	46 (67)	40 (53)
Government 1/	24	13	15	9
Petroleum	22	13	19	13
Other	6	14	12	18
2. Imports under auction systems	16 (24)	34 (46)	23 (33)	35 (47)
II. Capital	29	22	27	20
Government capital service payments	19	15	18	13
Private capital service payments	10	7	9	7
III. Other payments	3	4	4	5
Total	100	100	100	100

Source:

1/ Including petroleum imports by Petrobras.

Brasil: Payments in Convertible Currency[1]

(In millions of U.S. dollars)

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(In percentages of total)

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Petroleum	22	13	19	13
Other	6	14	12	18
2. Imports under auction systems	16 (24)	34 (46)	23 (33)	35 (47)
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Government capital service payments	19	15	18	13
Private capital service payments	10	7	9	7
III. Other payments	3	4	4	5
Total	100	100	100	100

Source:

1/ Including petroleum imports by Petrobras.

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Total exchange sales	747.0	1,465.7	664.0	1,259.6

Source: Exchange Department, Bank of Brazil.

1/ Including petroleum imports by Petrobras.

Dr. Lamarque's allocation

Brazil: Current and Suggested Service Payment Schedule on the U.S. Commercial Banks' $200 Million Gold Collateral Loan and on the Exim-Bank's $300 Million Loan

(In thousands of U.S. dollars)

	Proposed annual payments schedule			Current payment schedule			Excess of Current over proposed payment schedule
	$200 million gold collateral loan 1/	Eximbank $300 million loan 2/	Total	$200 million gold collateral loan	Eximbank $300 million loan	Total	
1958	5,453 3/	27,590	33,043	5,453	50,400	55,853	22,810
1959	5,500 3/	4,780 3/	10,280 3/	72,274	50,400	122,674	112,394
1960	5,500 3/	4,780 3/	10,280 3/	135,982	50,400	186,382	176,102
1961	38,500	50,400	88,900		17,712	17,712	-71,188
1962	37,593	50,400	87,993				-87,993
1963	36,690	43,100	79,790				-79,790
1964	35,780		35,780				-35,780
1965	34,870		34,870				-34,870
1966	35,970		35,970				-35,970

$200 million

1/ Based on the hypothesis that the/loan will be paid to the commercial banks by the F.R.B. at a monthly amount of US$16.66 million, beginning November 22, 1959. That is, as of October 22, 1960 the commercial banks will be paid off and the F.R.B. will then be holder of the $200 million gold collateral loan. It is assumed that the interest rate charged by the F.R.B. will be 2 3/4 per cent—the same as the interest rate charged to the current loan—which is the current discount rate of the F.R.B. The estimate assumes further that Brazil will make its first amortization payment in 1961, in the amount of $33 million and renegotiate a new loan for the balance outstanding at a one-year term. The same operation is assumed for the succeeding years until the total payment of the loan.

2/ Assuming that amortization payments will be deferrred for 2 1/2 years beginning July 1958.

3/ Interest on principal only.

I. Existing and Suggested Service Payment Schedule[1/] of the U.S. Commercial Banks Gold Collateral Loan of $200 million and of the Eximbank's $300 Million Loan

(In millions of U.S. dollars)

	Proposed annual payments schedule			Existing payments schedule			Excess of existing over proposed payment schedule
	$200 million gold collateral loan	Eximbank $300 million loan	Total	$200 million gold collateral loan	Eximbank $300 million loan	Total	
1958	5.5	50.4	55.9	5.5	50.4	55.9	—
1959	32.2	25.2	57.4	72.3	50.4	122.7	65.3
1960	44.2	25.2	69.4	136.0	50.4	186.4	117.0
1961	56.2	25.2	81.4		17.7	17.7	-63.7
1962	41.6	25.2	66.8				-66.8
1963	40.5	23.1	63.6				-63.6

1/ Principal and interest.

II. U.S. Commercial Banks' Loan to Brazil--$200 Million Gold Collateral under Credit Agreement dated November 19, 1954

Terms of loan: interest rate 2 3/4 per cent per annum; maturity of notes, 5 years from date of notes.

Table 1. Drawing Schedule (Dates of promissory notes)

(In thousands of U.S. dollars)

1954	November 22	40,000
	" "	13,333
	December 22	13,333
1955	January 22	13,333
	February 22	13,333
	March 22	13,333
	April 22	13,333
	May 22	13,333
	June 22	13,333
	July 22	13,333
	August 22	13,333
	September 22	13,333
	October 22	13,333
	Total	200,000

II. $200 Million Gold Collateral Loan (continued)

Table 2. Existing Maturity Schedule and Suggested Settlement

(In thousands of U.S. dollars)

	Existing Maturity Schedule	Suggested Settlement		
		Repayment by Brazil	Extensions by Commercial Banks 1/	Financing by F.R.B. 2/
1959 November 22	40,000		40,000 3/	
" "	13,333	13,333		
December 22	13,333	13,333		
1960 January 22	13,333	4,000	4,000	5,333
February 22	13,333	4,000	4,000	5,333
March 22	13,333	4,000	4,000	5,333
April 22	13,333	4,000	4,000	5,333
May 22	13,333	4,000	4,000	5,333
June 22	13,333	4,000	4,000	5,333
July 22	13,333	4,000	4,000	5,333
August 22	13,333	4,000	4,000	5,333
September 22	13,333	4,000	4,000	5,333
October 22	13,333	4,000	4,000	5,333

1/ Maturity of promissory notes to be extended for three years, except as otherwise shown.

2/ One year gold collateral loans.

3/ Renegotiate with the U.S. commercial banks extension of maturity of the note, repayment to be made in ten monthly installments of $40 million beginning January 22, 1962.

II. $200 Million Gold Collateral Loan (continued)

Table 3. Repayment Schedule Under Suggested Settlement Plan

(In thousands of U.S. dollars)

		Repayments to Commercial Banks	Repayments to Fed. Res. Bank	Loan Outstanding	Payment of Interest 1/ (2 3/4 %)	Total Service Payments	
1959	Jan.-Nov. 21	—		200,000	4,583	4,583	
	November 22	13,333		186,667	458	13,792	
	December 22	13,333		173,333	428	13,761	32,136
1960	January 22	4,000		169,333	397	4,397	
	February 22	4,000		165,333	388	4,388	
	March 22	4,000		161,333	379	4,379	
	April 22	4,000		157,333	370	4,370	
	May 22	4,000		153,333	361	4,361	
	June 22	4,000		149,333	351	4,351	
	July 22	4,000		145,333	342	4,342	
	August 22	4,000		141,333	333	4,333	
	September 22	4,000		137,333	324	4,324	
	October 22	4,000		133,333	315	4,315	
	November 22	—		133,333	306	306	
	December 22	—		133,333	305	305	44,171
1961	January 22		5,333	128,000	306	5,639	
	February 22		5,333	122,667	293	5,626	
	March 22		5,333	117,333	281	5,615	
	April 22		5,333	112,000	269	5,602	
	May 22		5,333	106,667	257	5,590	
	June 22		5,333	101,333	244	5,578	
	July 22		5,333	96,000	232	5,565	
	August 22		5,333	90,667	220	5,553	
	September 22		5,333	85,333	208	5,541	
	October 22		5,333	80,000	196	5,530	
	November 22		—	80,000	183	183	
	December 22		—	80,000	183	183	56,205
1962	January 22	4,000		76,000	183	4,183	
	February 22	4,000		72,000	174	4,174	
	March 22	4,000		68,000	165	4,165	
	April 22	4,000		64,000	156	4,156	
	May 22	4,000		60,000	147	4,147	
	June 22	4,000		56,000	138	4,138	
	July 22	4,000		52,000	129	4,129	
	August 22	4,000		48,000	120	4,120	
	September 22	4,000		44,000	111	4,111	
	October 22	4,000		40,000	102	4,102	
	November 22	—		40,000	93	93	
	December 22	—		40,000	93	93	41,611
1963	January 22	4,000		36,000	93	4,093	
	February 22	4,000		32,000	84	4,084	
	March 22	4,000		28,000	75	4,075	
	April 22	4,000		24,000	66	4,066	
	May 22	4,000		20,000	57	4,057	
	June 22	4,000		16,000	48	4,048	
	July 22	4,000		12,000	39	4,039	
	August 22	4,000		8,000	30	4,030	
	September 22	4,000		4,000	21	4,021	
	October 22	4,000		—	12	4,012	40,525

1/ These estimates assume that both commercial banks and the Federal Reserve Bank will charge interest of 2 3/4 per cent per annum. Current discount rate charged by the Federal Reserve Bank of New York is 2 3/4 per cent.

III. Export-Import Bank's Loan to Brazil--$300 Million extended in April 1953 to pay off dollar draft backlog.

Terms of loan: interest rate 3½ per cent per annum; repayment in 81 monthly installments of $4.2 million (principal and interest) starting September 30, 1954.

Table 1. Suggested Repayment Schedule1/

(In millions of U.S. dollars)

	Interest	Principal	Total	Outstanding at end of period
1957				159.17
1958	4.85	45.55	50.40	113.62
1959	3.63	21.57	25.20	92.05
1960	2.87	22.33	25.20	69.72
1961	2.09	23.11	25.20	46.61
1962	1.23	23.97	25.20	22.66
1963	0.40	22.66	23.06	--

1/ It is proposed that Brazil's monthly service payments be reduced from $4.2 million to $2.1 million starting January 1959. Thus, the total annual payments would be reduced from $50.4 million in 1958 according to existing agreement, to $25.2 million in 1959 and thereafter.

III. $300 Million Eximbank Loan.

Table 2. Suggested Repayment Schedule by Month

(In thousands of U.S. dollars)

		Service Payment Schedule			Outstanding at End of Period
		Total	Interest	Principal	
1957					159,175
1958[1/]	January	4,200	464	3,736	155,439
	February	4,200	453	3,747	151,693
	March	4,200	443	3,757	147,935
	April	4,200	432	3,768	144,167
	May	4,200	421	3,779	140,387
	June	4,200	409	3,791	136,597
	July	4,200	398	3,802	132,795
	August	4,200	387	3,813	128,982
	September	4,200	376	3,824	125,159
	October	4,200	365	3,835	121,324
	November	4,200	354	3,846	117,478
	December	4,200	343	3,857	113,620
1959	January	2,100	331	1,769	111,851
	February	2,100	326	1,774	110,077
	March	2,100	321	1,779	108,298
	April	2,100	316	1,784	106,514
	May	2,100	311	1,789	104,725
	June	2,100	305	1,794	102,931
	July	2,100	300	1,800	101,131
	August	2,100	295	1,805	99,326
	September	2,100	290	1,810	97,516
	October	2,100	284	1,816	95,700
	November	2,100	279	1,821	93,879
	December	2,100	274	1,826	92,053
1960	January	2,100	268	1,832	90,221
	February	2,100	263	1,837	88,384
	March	2,100	258	1,842	86,542
	April	2,100	253	1,847	84,695
	May	2,100	247	1,853	82,842
	June	2,100	242	1,858	80,984
	July	2,100	237	1,863	79,121
	August	2,100	231	1,869	77,252
	September	2,100	226	1,874	75,378
	October	2,100	220	1,880	73,498
	November	2,100	215	1,885	71,613
	December	2,100	210	1,890	69,723
1961	January	2,100	205	1,895	67,828
	February	2,100	200	1,900	65,928
	March	2,100	194	1,906	64,022
	April	2,100	189	1,911	62,111
	May	2,100	184	1,916	60,195
	June	2,100	178	1,922	58,273
	July	2,100	172	1,928	56,345
	August	2,100	166	1,934	54,411
	September	2,100	160	1,940	52,471
	October	2,100	154	1,946	50,525
	November	2,100	148	1,952	48,573
	December	2,100	142	1,958	46,615
1962	January	2,100	136	1,964	44,651
	February	2,100	130	1,970	42,681
	March	2,100	124	1,976	40,705
	April	2,100	118	1,982	38,723
	May	2,100	112	1,988	36,735
	June	2,100	106	1,994	34,741
	July	2,100	100	2,000	32,741
	August	2,100	95	2,005	30,736
	September	2,100	90	2,010	28,726
	October	2,100	84	2,016	26,710
	November	2,100	78	2,022	24,688
	December	2,100	72	2,028	22,660

Table 2. Suggested Repayment Schedule by Month (continued)

(In thousands of U.S. dollars)

		Service Payment Schedule			Outstanding at End of Period
		Total	Interest	Principal	
1963	January	2,100	66	2,034	20,626
	February	2,100	60	2,040	18,586
	March	2,100	54	2,046	16,540
	April	2,100	48	2,052	14,488
	May	2,100	42	2,058	12,430
	June	2,100	36	2,064	10,366
	July	2,100	30	2,070	8,296
	August	2,100	24	2,076	6,220
	September	2,100	18	2,082	4,138
	October	2,100	12	2,088	2,050
	November	2,056	6	2,050	—
	December				

1/ No change in existing payments schedule in 1958. New settlement terms would become effective January, 1959.

March 7, 1958

Miss Dillon:

This is a rush memo since the Managing Director is actively involved in Brazil at this stage. I hope he can read it before he calls a meeting on Brazil.

Thank you.

J. Del Canto

Attachment

Confidential

Mr. Per Jacobsson, Managing Director
Mr. E. Marle Cochran, Deputy Managing Director

March 7, 1958

Jorge Del Canto, WHD JDSC

Brazil--Tentative Views on Use of the Fund's Resources

The briefing paper submitted to you yesterday summarizes financial developments in 1957 and the immediate outlook for 1958. It also provides, as a basis for discussions, some tentative staff views as to the course of action that the Brazilian authorities might consider to deal with their problems. It is our hope that these ideas might prove realistic. In informal discussions with Dr. Paranagua, he has agreed with most of them, and in general--although not in every detail--it runs parallel to the known thinking of some of the key technicians in Brazil, like Roberto Campos, Casimiro Ribeiro, etc. It is also to be hoped that the seriousness of the present balance of payments crisis might contribute to develop sufficient political courage for the policy makers, so that a stabilization program can crystallize with the technical cooperation of the IMF.

The briefing does not deal--except by implication--with the form in which the use of the Fund's resources could be considered at the present time by Brazil. In analysing this Brazilian problem, it is important first to determine whether the current payments difficulties are: (a) temporary (for seasonal or other reasons), or (b) structural, due to a change in the long run position of coffee and to the maintenance of overvalued import rates, on the face of a situation of continuing inflation arising primarily from budgetary deficits and loose credit policies. If the payment difficulties are not strictly temporary--and this is my personal view--the use of the Fund's resources could only be justified as financial support for a major stabilization effort.

The fact that the Brazilian authorities have been thinking of a drawing for the third credit tranche ($37.5 million), however, might make it necessary for our mission to clarify, for the benefit of the Brazilian authorities, our understanding of the nature of their payment difficulties.

It might not be easily discernible to the Brazilian authorities to see that they are not facing temporary payments difficulties, but the difficulties go deeper. The authorities that are operating the exchange system at the Bank of Brazil are, of course, well aware of the fact that they are going through a tight dollar position, due to the fact that after a few months of record coffee sales since the last Fund drawing (October), coffee exports dropped in January and February to around one half what they were a year ago in the same period. Their dollar cash position is negative and they have drawn by more than one half their lines of credit in New York, estimated at $90 million. While this slackening of demand for coffee is partly due to buyer's resistance,

INFORMATION COPY

in view of the long run outlook for coffee (growing surpluses)1/ the basic reasons for the drop in coffee sales is a direct consequence of the present coffee export rate and the domestic minimum price that have priced Brazilian coffee out of the market. Brazil is inhibited to make a drastic change in its coffee policy (exchange rate and minimum price) in view of its commitments under the Mexico Coffee Agreement.2/

The Brazilian authorities might think that it is proper for the Fund to assist them financially, on a temporary basis, while they gain time to take corrective measures that would allow coffee to flow again normally, without wrecking the Mexico Agreement. The situation is becoming so critical that the Brazilian authorities could even consider a $57.5 million drawing, with a commitment for a six-month voluntary repurchase. It is my view that such operation--if accepted by the Fund--would not solve anything, in view of the fact that with present financial policies Brazil will not be in a position to discharge such repurchase within six months. Brazil already has a repurchase scheduled for $17.25 million in July 1958 and $20.25 million in December 1958; the drawing of $57.5 million last October 1957 will be due in October 1960.

In rejecting the idea of a drawing for seasonal reasons, however, it is my view that we should be careful in not implying that we are taking a stand against the Mexico Agreement. This is political dynamite for most Latin countries, and while I personally have some doubts about its workability over the long run, in a period of growing surplus, I think we must limit ourselves--as we have done so far--in cautioning our member countries of the domestic inflationary repercussions of this scheme.

I think our staff mission should emphasize the fact that the immediate payment difficulties arising from coffee, however, are only a symptom of a far more serious imbalance in the Brazilian economy. This imbalance is the direct consequence of domestic inflation associated with budgetary deficits and loose credit policies. Furthermore, there are certain structural weaknesses in the Brazilian balance of payments. There is a heavy dependence on certain basic imports (petroleum, wheat and other essentials) and a heavy

---

1/ World coffee production for the 1957/58 season is expected to increase to 41.5 million bags from 35.6 million bags for the previous season and expected to increase further to 43 million bags over the next 3 years, while consumption has stabilized--at present prices--at around 39 billion bags. In order to maintain prices, under the Mexico Agreement the Latin countries agreed to withhold from export certain proportions of their coffee production (for Brazil 20% of exports made in the period October 1, 1957 to September 30, 1958, or around 3.1 million bags).

2/ Brazil's obligations under the Mexico Agreement have become firmer and firmer as the other countries fulfill their obligations. On March 3 Colombia set minimum export prices and pegged the buying rate for certificates at 6.10 pesos per dollar, in an attempt to develop a spread of 2 cts./lb. between Colombian milds and Santos 4; up to then Brazil had been worried about Colombia undercutting Brazilian coffee in the U.S. markets since higher quality Colombian coffee was below the cheaper grade Brazilian coffees.

schedule of amortization for foreign debts (including large debts involving refunding of commercial arrears). Even assuming that the present coffee situation would not change (prices at around 50-55 cts./lb.)--a very optimistic assumption indeed--the servicing of external debts would represent a heavy burden over the next few years (over $300 million, or 20% of all foreign exchange receipts in the next three years). From this point of view it is alarming that Brazil should be facing payment difficulties at a time when the adjustment for Brazilian coffee prices in the world market has just begun (a drop of only 5% in the price of Santos 4 since a year ago, as compared with a 20% drop for mild coffees (Colombia and Central America) and an even greater drop in the price of non-ferrous metals). One can visualize the gravity of the situation when the drop of coffee prices gets well under way.

As indicated before, the payments difficulties of Brazil are the direct result of (a) a long run trend--which has become a "slogan" in official and academic circles in Brazil--that growth can only be achieved at the price of certain minimum rate of inflation; and (b) a continuous tendency--in postwar years--to mortgage Brazil's creditworthiness through a heavy short and medium-term borrowing, for development as well as current consumption, and (c) more recently--in 1956 and 1957--a policy of appreciating the auction import rates while domestic inflation continued.1/

In these postwar years Brazil has been fortunate in receiving a continuous inflow of foreign capital, and substantial loans have also been made available from the IBRD and the Eximbank. A large accumulation of supplier debts has also developed. This has allowed the Brazilian economy to reach a greater degree of diversification. From this point of view the Brazilian economy is in a much stronger position than that of Argentina, for example. On the other hand, this financial assistance has delayed the authorities from facing the facts and adopting suitable policies to correct the situation. A short-lived attempt to follow stabilization policies was made by Dr. Gudin in late 1954 and early 1955, but the national psychology seems to be against drastic stabilization policies.

It is our hope that the time might have come when the authorities will awaken to the seriousness of their financial difficulties and agree to work out a major stabilization program with our staff mission. If such a program evolves in the discussion of our team with the Brazilian authorities, the pooling of Fund resources with those coming from other sources to back up a stabilization effort would follow the pattern of other stabilization attempts being undertaken in Latin America and strengthen Fund policies in this direction.

If an attempt to evolve a stabilization program proves successful, it would appear that a stand-by, for either 25% or preferably a 50% of quota ($37.5 million or $75 million) might suit better Brazil's present needs. A stand-by would provide the following advantages for Brazil: (a) Raise a larger sum of money, by combining our resources with other sources, to support the stabilization effort; (b) flexibility of such financial assistance. Brazil would use under the stand-by strictly the minimum needed; (c) economy

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1/ The average effective rate for the U.S. dollar in the Rio market declined from about Cr$121 per dollar in Feb. 1956 to about Cr$98 in Nov. 1956 and stayed at this level until Aug. 1957, when the new tariff was adopted and the number of auction rates was reduced from 5 to 2. Under the new system the quotation for the dollar in the General Category of Imports was Cr$90 and stayed at around that level until the end of Jan. when the volume of dollar in the auction market was reduced by $1 million for the General Category of Imports.

in the cost of the operation, and (d) the added advantage of permitting a refunding of the repurchases scheduled for next July and December, totaling $37.5 million. For the Fund, a stand-by strengthens our hand in the implementation of the stabilization program and would permit a more economical and useful application of our resources.

JDelCanto:arb

Office Memorandum

Confidential

TO : Mr. Per Jacobsson, Managing Director
Mr. H. Merle Cochran, Deputy Managing Director

DATE: March 7, 1958

FROM : Jorge Del Canto, WHD

SUBJECT : Brazil--Tentative Views on Use of the Fund's Resources

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1/ The average effective rate for the U.S. dollar in the Rio market declined from about Cr$121 per dollar in Feb. 1956 to about Cr$88 in Nov. 1956 and stayed at this level until Aug. 1957, when the new tariff was adopted and the number of auction rates was reduced from 5 to 2. Under the new system the quotation for the dollar in the General Category of Imports was Cr$90 and stayed at around that level until the end of Jan. when the volume of dollar in the auction market was reduced by $1 million for the General Category of Imports.

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SECRET | INCOMING MESSAGE | SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK 028524

FILING TIME: 4:06 PM MARCH 4, 1958

VIA: WESTERN UNION

Number: 48

WE HAVE EARMARKED FOR YOUR ACCOUNT 1644.900 TROY OUNCES OF FINE GOLD BY ORDER OF BANCO DO BRASIL, S.A.

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
SEC

Test number checks:

Approved:

Received in Code Room: 5:05 PM March 4, 1958

1 - Mr. Costanzo
2 - Mr. Del Canto

Mr. Cochran

Mr. Horne

February 18, 1958

Brazil

Mr. Paranagua has informed me that owing to certain changes that are being made in the Brazilian exchange system, he will not be ready for the Brazilian consultations report to come to the Board before some time in March.

cc: Mr. Del Canto
Mr. Friedman
Miss Hodel

OFFICIAL OUTGOING MESSAGE OFFICIAL

1. Mr. Del Canto
2. Mr. Contreras
3. Mr. Friedl
4. Mrs. Becerra

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

FOR PREPARING OFFICER
- ☐ Night Letter
- ☐ Ordinary
- ☒ Code

SPECIAL INSTRUCTIONS

To: Superintendencia da Moeda e do Credito
Rio de Janeiro
Brazil

No. 1

Charges due pursuant to Article V, Section 8(c) for period ended January 31, 1958 amount to 1,643.795 troy ounces of fine gold; advice airmailed today. These charges are payable within 30 days from date of cable.

Code

Test No. INTERFUND

d By MFWalsh/sl
Department Office of the Treasurer
Date February 3/58

AUTHORIZATION

Signature

Second Signature When Required

cc: Dep. Mg. Dir.
Mr. Paranagua
WHD
TRE
SEC

DISPATCHED
FEB 3 1958
BY
CODE ROOM

FOR CODE ROOM
Time Received 3:25 PM
Time Dispatched 3:48 PM
Number of Words 12
Log 23978
Route AIR AMERICA
Operator AF

DO NOT TYPE BELOW THIS LINE

January 20, 1958

Dear Herculano:

In the absence of Mr. Costanzo, I am writing to you to acknowledge receipt of your letter of December 30, 1957, and to thank you for carrying out the arrangements made with Mr. Sacchetti.

Unfortunately, however, the enclosure referred to in the letter was not received with the letter. We would appreciate it if you would send us another copy of the misplaced data on exchange auctions. We also hope to receive soon a copy of SUMOC's Instruction consolidating the various decrees and regulations on exchange matters which, we understand, has been issued recently.

I wish to express our appreciation for your kind cooperation in maintaining the stream of valuable information to the Fund which is so important for our task.

With kindest regards, I am,

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Señor Herculano Borges da Fonseca
Chefe, Departamento Económico
Superintendência da Moeda e do Crédito
Rio de Janeiro, Brazil

EZ:mcgs

SUBJECT COPY

116950.

Superintendência da Moeda e do Crédito

Rio de Janeiro, Dezember 30 th, 1957

Cta. DE-DIBAP- 1887 /57.

Mr. G.A. CONSTANZO
International Monetary Fund
1818 H St., N.W.
Washington 25, D.C.
U.S.A.

JAN 16 9 36 AM 1958
INTERNATIONAL MONETARY FUND
RECEIVED CORRESPONDENCE SECTION

Dear Mr. Constanzo,

We are enclosing herewith a set of totals referring to data on exchange auctions required by Mr. Sacchetti during the last "consultations".

In accordance with arrangements with Mr. Sacchetti, as the figures couldn't be furnished at that time, we should send them to the Fund as soon as possible.

Please accept our best regards.

ECONOMICS DEPARTMENT
Balance of Payments Division.

Herculano Borges da Fonseca,
Chief of Department

Guilherme A. Pegurier,
Chief of Division

Population in exchange system

/bra.

S. M. C. 7

January 10, 1958

Dear Mr. Cardozo de Mello Neto:

While I was away in Europe, I learned of your appointment to the important position of Executive Director of SUMOC. I would like to congratulate you on this appointment and I wish you every success in the delicate task ahead of you. We have learned of your background as an important banker from Sao Paulo --a state that I had the privilege of visiting during my recent trip to South America--and we are confident that through you we will further strengthen the excellent working relationship which has developed between the Fund and the monetary authorities in Brazil.

With best wishes for 1958, I am,

Sincerely yours,

Per Jacobsson
Managing Director

Mr. Jose J. Cardozo de Mello Neto
Executive Director
Superintendency of Money and Credit
Rio de Janeiro, Brazil

For your information, I would like to add that a small repurchase obligation, equivalent to $207.77 was calculated in accordance with the provisions of Article V, Section 7(b) of the Fund Agreement.

However, in conformity with the Executive Board's Decision at Meeting 57/55 of November 8, 1957, relating to minimal repurchase obligations, Brazil will be notified, and the obligation collected, on the next occasion that a repurchase obligation accrues which, together with the one mentioned above will total the equivalent of $500 or more.

Sincerely yours,

Y. C. Koo
Treasurer

Superintendencia da
Moeda e do Credito
Rio de Janeiro, Brazil

SHWilmer/PEhrlich/RKroc/ams
January 9, 1958

Mr Del Canto

Mr. Cochran January 6, 1958

Irving S. Friedman and Jorge Del Canto

Bill Brand

Attached hereto are suggested revisions in the Brazilian decision, in light of the discussion in your office this morning. We are also sending you the original draft of the Recommendations for your handy reference.

cc: Mr. Fawcett
Mr. Gold
Mr. Hexner

Revision Paragraphs 4 and 5 — Draft Recommendations on Brazil

4. Since the last consultations there was a simplification in Brazil's multiple exchange system affecting import payments, resulting mostly from the changes introduced in August 1957 in connection with the tariff reform. The multiple exchange system for exports, involving two sets of four export bonuses for the established export categories plus a variable bonus for coffee export proceeds which terminates on June 30, 1958, remains complex. The remaining complexities are harmful to Brazil's economic and exchange position, and are unnecessary. The Fund does not object to the above multiple currency ~~rates~~ practices on a temporary basis, but urges Brazil to take early steps to introduce further exchange simplifications. and will remain in consultation with Brazil on this matter. The Fund notes that Brazil has reduced reliance on bilateral agreements and encourages Brazil to continue its efforts in this direction.

5. Brazil has recently introduced an arrangement whereby exports of textiles receive a bonus of Cr$36 per US$1 in addition to the effective rates for Category IV exports. The bonus is to be financed by an exchange surcharge of Cr$35 per US$1 on imports of specified textile equipment. The Fund considers that, particularly in light of its decision of June 26, 1957 on multiple currency practices, this arrangement should be discontinued.

Office Memorandum

TO : Mr. H. Merle Cochran, Deputy Managing Director DATE: January 2, 1958

FROM : Jorge Del Canto

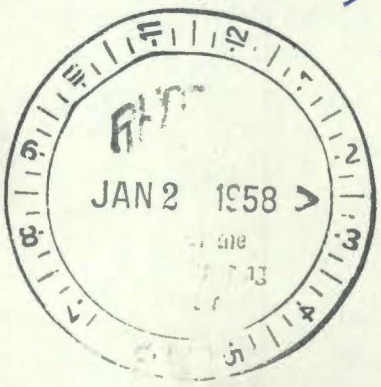
SUBJECT : 1957 Consultations - Brazil

Attached you will find the complete report. Part I has been agreed by both Departments, but drafts of sections of Part II (also attached) have been exchanged between both Departments and will be mutually agreed by tomorrow. You mentioned this morning that you wanted to discuss our policy position, on the recommendation, vis-a-vis other complex cases, like Yugoslavia and Uruguay.

I understand you intend to pass this document to the Managing Director.

Mr. Jacobsson does not wish to see this

J.D.C. 1/2/58



Attachments

Mr. H. Merle Cochran, Deputy Managing Director January 2, 1958

Jorge Del Canto

1957 Consultations - Brazil

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I understand you intend to pass this document to the Managing Director.

Attachments

JDelCanto:arb

INTERNATIONAL MONETARY FUND

January 16, 1958

Mr. Cochran:

Attached is a carbon copy of the stenciled Brazilian consultations report. It will not be mimeographed until you give the final o.k.

I understand from Mr. Friedman that he will be discussing the Israel report with you in the near future and he feels that we ought to wait until you have made a decision on Israel before we release the Brazilian report.

J. Del Canto

Jorge Del Canto

Mr. Friedman

January 15, 1957

Ervin Hexner

Brazil

I have no comments on the consultations paper and on your and Mr. Del Canto's note to Mr. Cochran of January 6, 1958. I clarified a few minor points with Messrs. Finch, Sacchetti and Sweeney.

Cc: Messrs. Del Canto, Finch, Sacchetti

INTERNATIONAL MONETARY FUND

Mr. Del Canto

The Managing Director

January 10, 1958

Dear Mr. Salles:

I was happy to learn, while I was away in Europe, that you had been named Minister of Justice of your country. I would like totake this opportunity to congratulate you and wish you success in your new important task. In a way I am sorry to see you leave the Superintendency, since through you we have developed an intimate working relationship between the monetary authorities of Brazil and the Fund.

With my best personal wishes to Mrs. Salles and you from Mrs. Jacobsson and myself, I remain,

Sincerely yours,

Per Jacobsson
Managing Director

His Excellency
Eurico de Aguiar Salles
Minister of Justice
Ministry of Justice
Rio de Janeiro, Brazil