

INTERNATIONAL MONETARY FUND

December 31, 1979

Mr. Cochran:

Attached are weekly progress reports on Brazil, Haiti, and Paraguay. There are no noteworthy changes in the trends pointed out in previous notes.

G. A. Costanzo

Mr. C. D. Finch

December 31, 1959

M. Kemal Kurdas

Brazil--Selected Data

End of period	Currency	Government borrowing during year	Average auction premium ^{1/}	Free market rate
	(In billions of cruzeiros)		(In Cr\$ per US\$)	
<u>1958</u>				
December	119.8	28.4	192.8	138.5
<u>1959</u>				
March	121.0	9.5	276.0	139.5
June	125.3	18.0	166.3 ^{2/}	147.8
September	135.4	21.6	182.2	166.0
October 31	138.0	23.1	198.3	183.5
November 28	142.7	27.3	189.5 ^{2/}	194.5
December 5	146.6	32.3	190.5	194.5
December 12	149.4	34.2	193.2	198.0
December 19	154.1	39.6	192.4	204.5
December 26	156.6	38.9	4 ^{4/}	208.5 ^{3/}

Source: SUMOC, Weekly cable and Statistics Division, IMF.

- ^{1/} Average of general and special categories for Rio de Janeiro and Sao Paulo.
- ^{2/} Supply of exchange to market increased.
- ^{3/} Mid-point rate for December 23, 1959.
- ^{4/} There was no auction during this week.

INTERNATIONAL MONETARY FUND

December 28, 1959

Mr. Cochran:

Attached is the usual weekly report on Brazil. You will note the rapid increase in currency issue and government borrowing at the central bank in December, i.e., Cr\$12 billion.

G. A. Costanzo

Mr. C. D. Finch

December 28, 1959

M. Kemal Kurdas

Brazil--Selected Data

End of period	Currency (In billions of cruzeiros)	Government borrowing during year	Average auction premium ^{1/} (In Cr\$ per US\$)	Free market rate
<u>1958</u>				
December	119.8	28.4	192.8	138.5
<u>1959</u>				
March	121.0	9.5	276.0	139.5
June	125.3	18.0	166.3 ^{2/}	147.8
September	135.4	21.6	182.2	166.0
October 31	138.0	23.1	198.3	183.3
November 28	142.7	27.3	189.5 ^{2/}	194.5
December 5	146.6	32.3	190.3	194.5
December 12	149.4	34.2	193.2	198.0
December 19	154.1	39.6	192.4	201.0 ^{3/}

Source: SUMOC, Weekly cable and Statistics Division, IMF.

- ^{1/} Average of general and special categories for Rio de Janeiro and Sao Paulo.
^{2/} Supply of exchange to market increased.
^{3/} Mid-point rate for December 17, 1959.

The Acting Managing Director

December 24, 1959

Irving S. Friedman

Japanese-Brazilian Bilateral Agreement

Mr. Kashiwagi of the Japanese Embassy telephoned today to inquire as to whether there had been any recent discussions between Brazil and the Fund or whether any would be scheduled within the next month or two. He was acting in response to a cable from Tokyo regarding the Brazilian-Japanese bilateral agreement. It seems that the Japanese Government is eager to terminate the agreement in the near future. The Brazilian authorities have been saying that they felt they could not terminate the agreement until after they have had their discussions with the Fund. At such time they might be ready to place their relations with Japan on a multilateral basis. Until then they wished to continue the special auctions for Japan and the outstanding credit mechanism. At the moment the outstanding indebtedness of Brazil to Japan is about \$57 million. The Brazilians have argued that if the bilateral agreement is terminated there should be "compensatory financing" from Japan, saying that this would be similar to help being given to Brazil by the European countries and the DF. It seems to be the feeling of the Japanese Government that they would like to terminate the agreement at this time but that, if the Fund was going to have discussions with Brazil in the next month or two this would be taken into consideration.

I told Mr. Kashiwagi that to the best of my knowledge there were no discussions going on currently nor were there any planned for the next month or two, but that I would check on this. He indicated that he would like to have the information by some time next week and would be calling back during the week. I checked this with Costanzo and we suggest that Mr. Kashiwagi be informed that there are no current discussions with Brazil and none planned at this time for the next month or two.

cc: Mr. Costanzo ✓

INTERNATIONAL MONETARY FUND

December 18, 1959

Mr. Cochran:

Attached are two weekly progress reports, one on Chile and the other Brazil. You will note the 5 per cent jump in currency issue in Brazil in the first two weeks of December. As of December 12, Chile was Chil\$11 billion over the stand-by ceiling on Central Bank loans and investments.

file: Brazil

G. A. Costanzo

Mr. J. Del Canto

December 17, 1959

C. D. Finch

Brazil--Selected Data

End of Period	Currency	Government Borrowing During year	Average Auction Premium ^{1/}	Free Market Rate
	(In billions of cruzeiros)		(In Cr\$ per US\$)	
<u>1958</u>				
December	119.8	28.4	192.8	158.5
<u>1959</u>				
March	121.0	9.5	276.0	159.5
June	125.3	18.0	156.3 ^{2/}	147.8
September	135.4	21.6	182.2	166.0
October 31	138.0	23.1	198.3	183.5
November 28	142.7	27.3	189.5 ^{2/}	194.5
December 5	146.4	32.5	190.5	194.5
December 12	149.4	34.2	193.2	198.0

Source: SUMOC, Weekly cable and Statistics Division, IBF

- ^{1/} Average of general and special categories for Rio de Janeiro and Sao Paulo.
^{2/} Supply of exchange to market increased.

Mr. G. A. Costanzo

December 15, 1959

C. D. Finch

Summary of Recent Economic Developments in Brazil

The inflation in Brazil has continued unchecked in recent months. The cost of living index for Rio de Janeiro shows an increase of 42.7 per cent for the first ten months of 1959, more than twice the increase in the same period of 1958 and far larger than in any other recent year. The increase in prices has been sustained by a rapid, although proportionately less, growth of currency issue. From the end of 1958 to December 5, 1959, the increase has amounted to Cr\$26.6 billion or 22 per cent. The growth has been particularly rapid since mid-1959. The percentage increase in currency from June 30 to December 5, 1959 was 17 per cent.

Table 1. Selected Indicators of Brazilian
Financial Situation

	Increase in Currency Issue		Increase in Government Borrowing		Cost of Living	
	1958	1959	1958	1959	1958	1959
	(In billions of cruzeiros)				(% increase during year)	
March	--	1.2	8.6	9.5	6.3	15.0
June	6.8	5.9	18.8	18.0	8.5	25.5
September	12.8	15.6	19.7	21.6	11.6	37.9
Nov. 29	19.1		26.5			42.7 (Oct.)
Dec. 5		26.6		32.5		
Dec. 31	23.2		28.4		19.3	

The monetary expansion appears to be due principally to a weakening budget position. The latest information shows the budgetary cash deficit as Cr\$32.5 billion to December 5, compared with the plan for 1959 to limit the deficit to Cr\$12 billion. In addition to this deficit large government-type expenditures have been made out of the "exchange profits account". The balance in this account dropped by Cr\$22 billion in the four months, June-September, 1959. This is the first time that the "exchange profits account" has shown a substantial excess of expenditures over receipts. The deficit in this account has been due both to high expenditures on coffee purchases and a surge of "other expenditures". In the period June-September, 1959, coffee purchases amounted to Cr\$20 billion compared with the Government's estimate to the Fund earlier in 1959 of Cr\$7.5 billion for the second half of 1959. Other expenditures from this account, probably for investment projects, amounted to Cr\$21 billion during the four months June-September, 1959, compared with Cr\$5 billion in the same period of 1958.

CENTRAL FILES

Table 2. Changes in Exchange Profits Account

(In billions of cruzeiros)

	1/ Balance		Net Exchange Profit		Coffee Purchases		Other Expenditures	
	1958	1959	1958	1959	1958	1959	1958	1959
Jan. 1 to May 31	1.3	18.9	12.8	37.9	8.0	9.0	3.5	10.0
June 1 to Sept 30	5.6	-22.2	13.0	13.3	7.5	20.1	4.8	20.9

1/ Negative sign indicates reduction in outstanding balance; positive sign increase.

Bank of Brazil credit to the private sector appears to have been under relatively greater control in 1959. In the first nine months of 1959 the increase in this credit was Cr\$12.6 billion (11 per cent) compared with Cr\$13.7 billion (20 per cent) in the same period of 1958. Credit extended by the commercial banks, however, has grown very rapidly. In the first nine months of 1959 the increase was Cr\$56.4 billion or 28 per cent and due to the substantial deficit of the public sector the liquidity of the commercial banks has continued above that of the year before.

Foreign exchange reserve data are not reported currently to the staff, but it is understood that through the beginning of November there was about \$60 million in convertible reserves or unused lines of credit, in addition to about \$50 million in free gold in New York. This would represent an improvement of about \$50 million compared with the low point early in the year. It is probable that some of this margin has since been used.

The free market rate has depreciated in the last two months to nearly Cr\$200 per U.S. dollar. The auction rate has also tended to depreciate recently, but this was checked at the end of November by a 25 per cent increase in the amount auctioned. The exchange to meet this increase in auction does not, of course, have to be delivered until four months have passed. Under the Brazilian exchange system, convertible currencies are auctioned for delivery in 120 days.

Table 3. Market Determined Exchange Rates

(Cruzeiros per U.S. dollar)

	1/ Average Auction Premium		Free Market	
	1958	1959	1958	1959
March	121.6	276.0	106.8	139.5
June	134.3	166.3	132.8	147.8
September	193.1	182.2	156.3	160.5
December 5		190.5		194.5
December 31	192.0		138.5	

1/ Average of General and Special Categories at Rio de Janeiro and Sao Paulo.

6/

December 15, 1959

Dear Mr. Galveas:

I wish to acknowledge receipt of your letter No. DE/DIVIN/
Cta. 407/59 of December 2, enclosing summary tables of the data
on government borrowing, currency issue, average agio for general
and special category auctions in Rio and Sao Paulo, and weekly
sales of exchange at auction.

With many thanks and warmest regards, I am

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Ernane Galveas
Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

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Translation
139930
12/22/59

UNITED STATES OF BRAZIL
SUPERINTENDENCY OF MONEY AND CREDIT

DE/DIVIN/Cta.415/59

Rio de Janeiro, December 10, 1959

Exchange Restrictions Department
International Monetary Fund
Washington 25, D.C.
U.S.A.

Dear Sirs:

We enclose statistical data on exchange certificate auctions held in Rio de Janeiro and São Paulo from November 3, 1959 to November 26, 1959, as well as the average quotations of some foreign currencies on the Rio de Janeiro free market.

Very truly yours,

ECONOMIC DEPARTMENT
International Division

/s/

Ernane Galvêas
Assistant Department Chief

/s/

C. N. de Sampaio Vianna
Division Chief

Sexpe/rfdd.5

Orig: & Encl: ERD
cc of letter: Mr. Paranaque
WTD
Mr. Kalivoda

December 2, 1959

Dear Mr. Galveas:

I wish to acknowledge receipt of your letter No. DE/DIVII/Cta. 366/59 of November 4, enclosing summary tables of the data on government borrowing, currency issue, average agio for general and special category auctions in Rio and São Paulo, and weekly sales of exchange at auction.

With many thanks and warmest regards, I am

Sincerely yours,

157

G. A. Costanzo
Acting Director
Western Hemisphere Department

Mr. Ernane Galveas
Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

SECRET

INCOMING MESSAGE

SECRET

**INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.**

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK

35752

FILING TIME: 4:13 PM November 30, 1959

VIA: WESTERN UNION

Number: 372

HAVE EARMARKED FOR YOUR ACCOUNT 9,632.258 TROY OUNCES OF FINE GOLD BY
ORDER OF BANCO DO BRASIL, S.A., RIO DE JANEIRO

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Mr. Paranagua
WHD
SEC

Test number checks:

Approved:

Received in Code Room: 9:00 AM December 1, 1959

December 1, 1959

Gentlemen:

We write with reference to the Fund's letter dated November 2, 1959, concerning the charges due to the Fund by Brazil pursuant to Article V, Section 2(c) of the Fund Agreement for the quarterly period ended October 31, 1959.

In this connection the Fund has been advised by the Federal Reserve Bank of New York that 9,634.253 troy ounces of fine gold were transferred to the Fund's account on November 30, 1959, by order of Banco do Brasil. This amount, together with 1.012 ounces mentioned in the Fund's letter of November 2, 1959, made a total of 9,633.270 ounces available for the payment of this charge. The Fund accordingly deducted the amount of 9,633.266 ounces due from the gold available, thereby leaving a balance of 0.004 troy ounce of fine gold, which is being held by the Fund at the disposal of Brazil in accordance with the terms of Rule I-1 of the Fund's Rules and Regulations.

Sincerely yours,



R. Kroc

Assistant Treasurer for Operations

Charles M. Powell
Acting Treasurer

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

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


DLchliter/wk
December 1, 1959

INTERNATIONAL MONETARY FUND

November 30, 1959

Mr. Cochran:

Attached are weekly reports on
the developments of the financial
situations in Bolivia, Brasil,
Haiti, and Peru.

G. A. Costanzo

November 27, 1959

Mr. C. David Finch

M. Kemal Kurdas

Brazil

Selected Data

End of period	Current Issues	Government Borrowing 1/	Agio per US\$ (Monthly Average) 2/	Free Market Rate (end of period) 3/
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1957: December 96.6 39.4 66.8 90.5

1958: March 96.6 7.2 121.6 106.8

June 103.4 17.0 134.3 132.8

September 119.8 25.6 192.8 138.5

1959: January 116.8 n.a. 220.5 143.6

February 116.8 3.8 262.8 139.8

March 121.0 9.1 276.0 139.5

April 122.9 12.1 222.1 136.5

May 125.3 15.7 177.9 131.3

June 125.3 16.3 166.3 147.8

Week ended: July 25 127.5 17.2 163.6 152.3

Aug. 29 131.2 17.3 157.4 151.8

Sep. 26 134.4 17.2 182.2 160.5

Oct. 31 138.0 17.2 198.3 183.5

Nov. 7 139.5 18.5 191.1 188.0

" 14 140.2 22.7 202.2 191.5

" 21 140.2 23.2 205.5 191.0

Figures for March and June 1958 and for 1959 consist of Treasury borrowing from the Bank of Brazil plus net loans of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual Government cash deficits for those years. For Rio de Janeiro and Sao Paulo; average of General and special categories. Midpoint rate. The weekly rates are for Friday of each week (Source: Statistics Division, International Monetary Fund.)



Office Memorandum

TO : Mr. C. D. Finch

File

DATE: November 20, 1959

FROM : M. Kemal Kurdas *u k*

SUBJECT : Brazil

Attached are two tables giving information on public sector finances and balance of payments movements during the last 10 years, as requested by Mr. Paranaguá.

Brazil - Public Sector Finances, 1951-59

(In billions of cruzeiros)

Period	Federal Government ^{1/}		Official Entities ^{2/}		Exchange System ^{3/}		Total Impact							
	Def.(-)	Surp.(+)	Def.(-)	Surp.(+)	Net Loss(-)	Profit(+)	Net Inflationary (-)	Currency Issues ^{4/}	Money Supply ^{5/}	Net Deflationary(+)	Iss.(+)	Dec.(-)	Iss.(+)	Dec.(-)
1951	(-) 2.4 ^{6/}		--		--		(-) 2.4	(+) 4.1	(+) 12.3					
1952	(-) 9.6 ^{6/}		--		--		(-) 9.6	(+) 3.4	(+) 7.5					
1953	(-) 3.7		(-) 2.8		(+) 2.4		(-) 4.1	(+) 6.9	(+) 20.0					
1954	(-) 4.8		(-) 7.6		(+) 11.9		(-) 0.5	(+) 12.1	(+) 27.4					
1955	(-) 7.1		(-) 2.0		(+) 2.3		(-) 6.8	(+) 9.2	(+) 26.4					
1956	(-) 25.3 ^{7/}		(-) 0.4		(+) 16.9		(-) 8.8	(+) 12.4	(+) 39.4					
1957	(-) 39.4 ^{7/}		(+) 0.1		(+) 4.8		(-) 34.5	(+) 15.5	(+) 73.6					
1958	(-) 25.6 ^{7/}		(-) 0.7		(+) 10.7		(-) 15.6	(+) 22.1	(+) 62.2					
1959														
Jan.-July	(-) 32.0		n.a.		(+) 9.8		(-) 22.2	(+) 8.2	(+) 44.8					
Jan.-Aug.	n.a.		n.a.		(+) 2.7 ^{8/}		n.a.	(+) 12.3 ^{9/}	n.a.					
Jan.-Oct.	n.a.		n.a.		n.a.		n.a.	(+) 13.2 ^{9/}	n.a.					

1/ Source: IFS if not otherwise stated. Indicates net movement in government indebtedness vis-a-vis banking system.

2/ Source: IFS. Indicates net movement in government indebtedness vis-a-vis banking system.

3/ Source: IFS. Indicates net movement in balances of Exchange Loss and Profit Account. Overstates the profits inasmuch as foreign loans are accounted for at the official rate.

4/ Source: IFS.

5/ Source: IFS.

6/ Includes official entities.

7/ Source: Ministry of Finance, Office of the Accountant General, Balancos Gerais da Uniao de 1958.

8/ Source: Information received from SUMOC.

9/ Estimates based on information received from SUMOC.

Brazil - Movements in Balance of Payments, 1950-59

(In millions of U.S. dollars)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	First Half ^{1/}	
										1958	1959
A. Goods, services and donations	<u>106</u>	<u>-471</u>	<u>-720</u>	<u>18</u>	<u>-235</u>	<u>-32</u>	<u>8</u>	<u>-299</u>	<u>-273</u>	<u>-67</u>	<u>-247</u>
B. Private capital	<u>28</u>	<u>82</u>	<u>60</u>	<u>110</u>	<u>75</u>	<u>65</u>	<u>247</u>	<u>356</u>	<u>248</u>	<u>116</u>	<u>165</u>
C. Official Capital	<u>-164</u>	<u>8</u>	<u>569</u>	<u>-109</u>	<u>-65</u>	<u>-14</u>	<u>-20</u>	<u>-98</u>	<u>151</u>	<u>-47</u>	<u>-10</u>
I. Import credits	<u>-164</u>	<u>38</u>	<u>564</u>	<u>-98</u>	<u>-98</u>	<u>-26</u>	<u>-20</u>	<u>-24</u>	<u>-10</u>	<u>-1</u>	<u>-6</u>
II. Other official capital ^{2/}	<u>-60</u>	<u>-22</u>	<u>5</u>	<u>-11</u>	<u>35</u>	<u>12</u>	<u>0</u>	<u>-74</u>	<u>141</u>	<u>-46</u>	<u>-4</u>
D. Monetary movements	<u>81</u>	<u>275</u>	<u>51</u>	<u>56</u>	<u>208</u>	<u>-71</u>	<u>-178</u>	<u>182</u>	<u>193</u>	<u>183</u>	<u>151</u>
I. Loans from U.S. Banks	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>200</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
II. Net DF position	<u>--</u>	<u>28</u>	<u>-28</u>	<u>28</u>	<u>--</u>	<u>--</u>	<u>-28</u>	<u>38</u>	<u>38</u>	<u>38</u>	<u>-20</u>
III. Other short-term liabilities ^{3/}	<u>30</u>	<u>138</u>	<u>83</u>	<u>-7</u>	<u>-30</u>	<u>-59</u>	<u>35</u>	<u>-17</u>	<u>28</u>	<u>98</u>	<u>149</u>
IV. Gold and reserve movements	<u>51</u>	<u>109</u>	<u>-4</u>	<u>35</u>	<u>38</u>	<u>-12</u>	<u>-185</u>	<u>161</u>	<u>27</u>	<u>47</u>	<u>22</u>
E. Net Errors and Omissions	<u>-51</u>	<u>106</u>	<u>30</u>	<u>-75</u>	<u>15</u>	<u>52</u>	<u>-57</u>	<u>-141</u>	<u>-199</u>	<u>-185</u>	<u>-99</u>

No sign indicates credit; minus sign indicates debit.

^{1/} Source: Balance of payments yearbook, Volumes 10 and 11.

^{2/} Excluding items I, II, III, in Group D.

^{3/} Preliminary.

^{4/} The data for the first half of 1959 are not entirely comparable with those for the first half of 1958.

^{5/} Includes Swaps.

INTERNATIONAL MONETARY FUND

November 20, 1959

Mr. Cochran:

Attached is the usual weekly
report on Brazil.

G. A. Costanzo

Mr. C. David Finch

November 20, 1959

M. Kemal Kurdas

Brazil

Selected Data

End of Period	Currency Issue	Government Borrowing ^{1/}	Agio per US\$ (Monthly Average) ^{2/}	Free Market Rate (end of period) ^{3/}
57: December	96.6	39.4	66.8	90.5
1958: March	96.6	7.2	121.6	106.8
June	103.4	17.0	134.3	132.8
September	109.4	n.a.		
December	119.8	25.6	192.8	138.5
1959: January	116.8	n.a.	220.5	113.6
February	116.8	3.8	262.8	139.8
March	121.0	9.1	276.0	139.5
April	122.9	12.1	222.1	136.5
May	125.3	15.7	177.9	131.3
June	125.3	16.3	166.3	147.8
<u>Week ended:</u>				
July 25	127.5	17.2	163.6	152.3
Aug. 29	131.2	17.3	157.4	151.8
Sept. 26	134.4	17.2	182.2	160.5
Oct. 31	138.0	17.2	198.3	183.5
Nov. 7	139.5	18.5	191.1	188.0
" 14	140.2	22.7	202.2	191.5

^{1/} Figures for March and June, 1958 and for 1959 consist of Treasury borrowing from the Bank of Brazil plus net issue of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual government cash deficit for those years.

^{2/} For Rio de Janeiro and Sao Paulo; average of general and special categories.

^{3/} Midpoint rate. The weekly rates are for Friday of each week (Source: Statistics Division, International Monetary Fund.)

INTERNATIONAL MONETARY FUND

November 12, 1959

6
Mr. Cochran:

Attached is the usual weekly report on Brazil. You will note that currency issue has continued to climb at an alarming rate.

G. A. Costanzo

November 12, 1959

Mr. C. D. Finch

M. Kemal Kurpas

Brazil

Selected Data

End of Period	Currency Issue	Government Borrowing $\frac{1}{2}$	Agto per US\$ (Monthly Average) $\frac{2}{2}$	Free Market Rate (end of period) $\frac{2}{2}$
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1957: December 96.6 39.4 66.8

1958: March 96.6 7.8 121.6

June 103.4 17.0 134.3

September 109.4 n.a. 192.8

December 119.8 25.6 220.5

1959: January 116.8 n.a. 262.8

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Sep. 26 134.4 17.2 182.2

Oct. 31 138.0 17.2 198.3

Nov. 7 139.5 18.5 191.1

Figures for March and June, 1958 and for 1959 consist of Treasury borrowing from the Bank of Brazil plus net issue of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December, 1957 and 1958 which show the actual government cash deficit for those years.

For Rio de Janeiro and Sao Paulo; average of general and special categories.

Midpoint rate. The weekly rates are for Friday of each week (Source: Statistics Division, International Monetary Fund.)

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INTERNATIONAL MONETARY FUND

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11
November 3, 1959

Mr. Cochran:

Attached is the usual weekly
report on Brazil.

G. A. Costanzo

Mr. C. David Finch

November 5, 1959

H. Kemal Kurdas

Brazil

Selected Data

End of period	Currency Issues	Government Borrowing 1/	Agio per US\$ (Monthly Average) 2/	Free Market Rate (end of period) 3/
1957: December	96.6	39.4	66.8	90.5
1958: March	96.6	7.2	121.6	106.8
June	103.4	17.0	134.3	132.8
September	109.4	n.a.		
December	119.8	25.6	192.8	138.5
1959: January	116.8	n.a.	220.5	143.6
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Week ended:				
July 25	127.5	17.2	163.6	152.3
Aug. 29	131.2	17.3	157.4	151.8
Sep. 26	134.4	17.2	182.2	156.3 1/2
Oct. 24	137.1	24.7	211.8	169.5 1/2
" 31	138.0	17.2	198.3	175.4 1/2

1/ Figures for March and June 1958 and for 1959 consist of Treasury borrowing from the Bank of Brazil plus net issues of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual government cash deficit for those years.

2/ For Rio de Janeiro and Sao Paulo; average of general and special categories.

3/ Midpoint rate. The weekly rates are for Friday of each week (Source: AGEFI, Paris).

4/ The weekly rates are for Friday of each week (Source: Journal of Commerce).

November 2, 1959

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, 1959.

The total of the charges due for this period amounts to 9,633.266 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, 1959 by the Fund under earmark for Brazil in terms of Section I-1 of the Fund's Rules and Regulations amounted to 1.012 fine ounces, which, of course, may be applied toward 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, 5^o andar
Rio de Janeiro, Brazil

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

AMathuran/wk
November 2, 1959

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, 1959**

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 cruzeiros 647.500 per fine ounce (In Fine Ounces)	In Fine Ounces	No. of Days	Month	(In Fine Ounces)
1959						
Aug. 1-31	3,787,857,826.70	5,849,973.478	1,564,259.192	31	Aug.	1,564,259.192
Sept. 1-30	3,787,857,826.70	5,849,973.478	1,564,259.192	30	Sept.	1,564,259.192
Oct. 1-31	3,787,857,826.70	5,849,973.478	1,564,259.192	31	Oct.	1,564,259.192

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	1959			
		Aug.	Sept.	Oct.	
October 1, 1957	967,717.980	2 3/4%	2 1/2%	3%	6,502.162
November 1, 1957	103,684.069	2 3/4%	2 1/2%	2 3/4%	653.351
June 1, 1958	492,857.143	2 1/2%	2%	2%	2,477.753
Total Excess Holdings	1,564,259.192				Total Charges for Period 9,633.266

† based on the exact number of days (a) in the month indicated, and (b) in the year commencing from the segment inception date or its anniversary.

(Signed) C. B. Powell

Chief, Division of Accounts
and Financial Reports

Comptroller and Assistant Treasurer

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25. D C

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

No. 7

Charges due pursuant to Article 7, Section 8(e)
for period ended October 31, 1959 amount to 9,633.266
troy ounces of fine gold; advice airmailed today. These
charges are payable within 30 days from date of cable.

Code

Test No.

INTERFUND

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

Drafted By Mathuran/wk
Office of the
Department Treasurer
Date November 2, 1959

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM

Time Received 5:20 PM
Time Dispatched 5:30 PM
Number of Words 12
Log 29907
Route WU
Operator MM



DO NOT TYPE BELOW THIS LINE

SEC-18,001
Translated by Sophia Ramm
Reviewed by K. F. Magurn
138146
10/27/59

UNITED STATES OF BRAZIL
SUPERINTENDENCY OF MONEY AND CREDIT

Rio de Janeiro, October 15, 1959

BE/DIVIN/Cta.290/59

Mr. Per Jacobsson
Managing Director
International Monetary Fund
19th and H Streets, N.W.
Washington 25, D.C.
U.S.A.

Dear Mr. Jacobsson:

With a view to completing the data transmitted to this Superintendency in your letter of December 21, 1956 and comparing them with the data available to us, we should appreciate it very much if you would send us, as soon as possible, the computations undertaken by your organization in connection with the survey of the position of Brazil's monetary reserves as of April 30, 1957 and 1958.

Very truly yours,

/s/

Marcos de Souza Dantas
Executive Director

JAF/dfm.

Orig: TRE
cc: Mr. Paranagua
LEG
WHD
RES
SEC

October 28, 1959

Mr. B. Brodman

Mr. Kemal Kurban

Brazil

Selected Data

End of Period	Current Issue	Government Borrowing 1/	Ago per US\$ (Monthly Average) 2/	Free Market Rate (end of period) 3/
---------------	---------------	-------------------------	-----------------------------------	-------------------------------------

1957: December

1958: March

June

September

December

1959: January

February

March

April

May

June

Week ended:

July 25

Aug. 29

Sept. 26

Oct. 10

" 17

" 24

96.6

96.6

103.4

109.4

119.8

116.8

116.8

121.0

122.9

125.3

125.3

127.5

131.2

134.4

136.9

137.1

137.1

137.1

39.4

7.2

17.0

n.s.

25.6

n.s.

3.8

9.1

12.1

15.7

16.3

17.2

17.2

17.3

17.8

16.1

28.1

24.7

66.8

121.6

134.3

192.8

220.5

262.8

276.0

222.1

177.9

166.3

163.6

157.4

182.2

206.0

211.2

211.2

211.8

90.5

106.8

132.8

138.5

143.6

139.8

139.5

136.5

131.3

147.8

152.3

151.8

156.3

167.0

167.0

167.0

169.5

Figures for March and June 1958 and for 1959 consist of Treasury borrowing from the Bank of Brazil plus net issues of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual Government cash deficits for those years. For Rio de Janeiro and Sao Paulo, average of general and special categories. (Source: AGENT, Paris.)

Source: Journal of Commerce. The weekly rates are for Friday of each week. (Source: AGENT, Paris.)

~~Mr. Boardman~~
Mr. Cables

35317

T
SM WUL084 22/20

RIODEJANEIRO VIA WU CABLES OCT 28 1635

INTERFUND FOR DEL CANTO

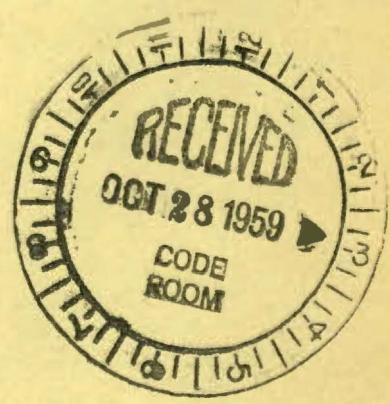
WASHINGTON25DCUSA

OUTUBRO 24 A 137.15 B MENOS 24.66 C 2.640 D 211.81

SUMOC BORGES DA FONSECA

327PME

Orig: Mr. Del Canto
cc: Mr. Cochran



WESTERN UNION TELEGRAM
WESTERN UNION TELEGRAM
WESTERN UNION TELEGRAM
WESTERN UNION TELEGRAM
WESTERN UNION TELEGRAM
WESTERN UNION TELEGRAM

CLASS OF SERVICE

This is a fast message unless its deferred character is indicated by the proper symbol.

WESTERN UNION TELEGRAM

W. P. MARSHALL, PRESIDENT

SYMBOLS

DL=Day Letter

NL=Night Letter

LT=International Letter Telegram

The filing time shown in the date line on domestic telegrams is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

35247

COA90 RIODEJANEIRO 22/20 21 1755

1959 OCT 21 PM 7 08

INTERFUND FOR DEL CANTO WASHINGTON25DC (VIA WU CALLS):

RR So issued 19 v H etc

=OUTUBRO 17 A 137.15 B MENOS 28.07 C 2.640 D 211.16=

SUMOC BORGES DA FONSECA=

Orig: Mr. Del Canto
cc: Mr. Cochran



81 8 AM 12 100 X45
SPX OCT 21

DLV

19 OCT 21 PM 7 23

Mr. B. Brovedani

October 15, 1959

Kemal Kurdas

Brazil

Selected Data

End of period	Currency Issue	Government Borrowing ^{1/}	Agio per US\$ (Monthly Average) ^{2/}	Free Market Rate (end of period) ^{3/}
1957: December	96.6	39.4	66.8	90.5
1958: March	96.6	7.2	121.6	106.8
June	103.4	17.0	134.3	132.8
September	109.4	n.a.		
December	119.8	25.6	192.8	138.5
1959: January	116.8	n.a.	220.5	143.6
February	116.8	3.8	262.8	139.8
March	121.0	9.1	276.0	139.5
April	122.9	12.1	222.1	136.5
May	125.3	15.7	177.9	131.3
June	125.3	16.3	166.3	147.8
Week ended:				
July 25	127.5	17.2	163.6	152.3
Aug. 29	131.2	17.3	157.4	151.8
Sep. 26	134.4	17.2	182.2	156.3 ^{4/}
Oct. 10	136.9	16.1	206.0	167.0 ^{4/}

^{1/} Figures for March and June 1958, and for 1959, consist of Treasury borrowing from the Bank of Brazil plus net issue of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual government cash deficit for those years.

^{2/} For Rio de Janeiro and Sao Paulo; average of general and special categories.

^{3/} Midpoint rate. The weekly rates are for Friday of each week. (Source: AGEFI, Paris.)

^{4/} Source: Journal of Commerce. The weekly rates are for Friday of each week.

6
October 15, 1959

Mr. Cochran:

Attached the clipping of the Sunday Times concerning Brazil that I mentioned to you yesterday. You might wish to pass it on to the Managing Director, since there is apparent contradiction between the views expressed by the Minister upon his return to Rio and the recent exploration of Don Octavio.

J. Del Canto

Attachment

The Managing Director

October 14, 1959

Irving S. Friedman, G. A. Costanzo, and Joseph Gold

Brazil--Use of First Credit Tranche

1. The possibility of Brazil using the first credit tranche raises the question whether Brazil is making reasonable efforts to follow appropriate policies with regard to: (1) domestic credit and fiscal policy; (2) exchange rate structure; and (3) use of short-term external financing.

2. To end the chronic payments balance in Brazil a firm monetary policy is essential. This would involve the achievement of a balanced budget, the limitation of Bank of Brazil credit to that compatible with price stability, and the financing of the coffee stockpile with net profits from the exchange system. The Brazilian Government has stated that these are its general policy objectives on several occasions in the past. For example, in 1958 the Government adopted a program designed to limit currency and credit expansion to 5 per cent. For various reasons, however, including social and political factors, these programs have not been implemented. Thus, in 1958 currency expansion amounted to 24 per cent, and Bank of Brazil credit to the private sector increased by 26 per cent. (The current position is described in the attached note, which indicates that prices and currency issue are increasing at unprecedented rates.) While the Government may be willing again to adopt fiscal and credit targets compatible with an internal stabilization policy, there seem to be no reasonable prospects of effective implementation.

3. The exchange system of Brazil is complex and damaging. This assessment, together with a recommendation for express disapproval, has been sent to the Executive Board, although no action has been taken. The principal reason for this disapproval was the unrealistic preferential rate of Cr\$1.00 per U.S. dollar applying to about 60 per cent of imports. No change has been made in this rate despite the continuance of a rapid internal price increase, which has made the rate even less satisfactory. Some depreciation of certain export rates has been made, but this has not reduced the spread of export rates. In these circumstances, there is no basis in developments since the consultations paper was issued for the staff to vary its recommendation to the Board. We are, therefore, confronted with an awkward situation wherein we are called upon to make \$48 million of Fund resources available to Brazil at the same time that there is a paper before the Board in which the staff recommends disapproval of the exchange rates. In the past, such papers have been discussed at the same time as the paper concerned with the drawing. Brazilian officials still appear to believe that the desired change in the exchange system is not politically feasible at this time.

4. It should be noted that even though the Board has not adopted the recommended disapproval of Brazil's exchange rates, this does not mean that those rates are approved. On the contrary, most of the export rates, the rates for freight, and certain other rates have been changed without the approval of the Fund. These rates cover about 50 per cent of total transactions, and they are inconsistent with the Articles of Agreement.

5. The possibility of future payments balance also depends on a program to reduce the level of external debt service. In recent months by doubling the level of swap transactions and by increasing the use of medium-term suppliers' credits the debt burden has increased. A program for payments balance should also include the limitation of suppliers' credits and the reduction of the level of swaps.

6. An additional problem arises from the possible association of a Fund drawing with the gold subscription payment. The Board of Governors and the Executive Directors have determined that special facilities for financing additional gold subscriptions shall not be available to countries, such as Brazil, having special quota increases under the Third or Fourth Resolutions. It would also be unfair to other members to recommend a drawing which did not comply with the Fund's drawing policies and might thus appear to be a special facility for returning subscription gold notwithstanding the prohibition on this. For example, Argentina has been advised, and has followed advice, to be meticulous in not using its existing stand-by arrangement in such a way as to constitute compensation for the additional gold subscription.

7. In view of the unlikelihood of effective action to limit the payments problem at this time, we believe it would be preferable for the Brazilian authorities to obtain financing at this time from sources other than the Fund. Nevertheless, if it becomes necessary to indicate the conditions for the use of the first credit tranche, we would suggest the following conditions:

(a) The adoption of appropriate monetary and fiscal policies to end price inflation in 1960. This would include appropriate ceilings on Bank of Brazil credit to the Government and the private sector and prohibition of the use of exchange differential profits for any purpose other than the stockpiling of coffee.

(b) The limitation of the use of suppliers' credits and the reduction of the use of swaps.

(c) The depreciation of the preferential exchange rate.

Recent Economic Developments in Brazil

1. In general, there are signs that the inflation is now gathering force in Brazil. The cost of living index for Rio de Janeiro increased by 12 per cent in July and August bringing the increase during 8 months of 1959 to 54 per cent compared with 10 per cent in the same 8 months of 1958. This increase in the cost of living in 1959 far exceeds the increase in any full year in recent history. On the other hand, there was in July and August some improvement in the foreign exchange position. Due largely to abnormally high coffee exports, reserves in convertible currency increased by \$77 million, including unutilized lines of credit on foreign commercial banks. This gain has been partly lost recently.

2. The recent price inflation appears to stem from a rapid growth of currency issue. In the three months after June 30 over-all currency issue has grown by Cr\$11 billion or 9 per cent, as compared with Cr\$6 billion in the same period of 1958.

3. No recent banking statistics are available to indicate the precise derivation of the recent expansion. However, the data for the first six months indicate that the budget deficit is up sharply. In six months net borrowing by the Government from the banking system is up Cr\$28 billion compared with Cr\$16 billion in the same period of 1958 and the planned Cr\$12 billion deficit for the full year 1959. The cabled information suggests this deficit has not grown in recent months, but it appears from other data that this partial series is no longer a satisfactory indicator of the over-all deficit.

4. In addition to this deficit there are extra-budgetary expenditures made directly from the exchange profits account. In June and July, the last months for which information is available, expenditures from this account, other than for coffee, have jumped to Cr\$14 billion compared with Cr\$2.5 billion in the same two months of 1958. Due to these expenditures the net balance in the exchange profit account has declined by Cr\$9 billion in June and July 1959, the first major decline in this balance in recent years.

5. The acceleration of the inflation has affected the market determined exchange rates in recent weeks. After several months of stability at about Cr\$180 per U.S. dollar, the average auction rate has increased to Cr\$215 per U.S. dollar at the first auction in October. The free market rate also has depreciated, reaching Cr\$175 recently compared with Cr\$142 at the end of June.

MEMORANDUM

September 29, 1959

File

To: The Managing Director

From: J. Dal Canto
I. S. Friedman
G. A. Costanzo

Subject: Brasil: Request for First Credit Tranche

1. Mr. Paranagua invited Messrs. Dal Canto, Friedman and Costanzo for an informal discussion with the Brazilian Delegation late yesterday afternoon. The Brazilian Minister of Finance, Mr. Páez de Almeida, and the head of the Bank of Brasil's Foreign Exchange Department, were present. e/

2. The Brazilians explained that Brasil had a payments deficit of \$132 million in the first half of 1959 which was financed largely by swap operations and some further draw-down in reserves. A deficit of about \$70 million is expected in the last half of 1959. In addition, Brasil will need to make a gold subscription payment to the Fund of \$32.5 million. The Brazilians indicated that, although they may be able to finance themselves through the end of November, they will need foreign financial assistance by December. In order to make appropriate plans for the financing of the prospective deficit, the Brazilians would like an indication now as to what the Fund's reaction would be to Brasil drawing the remainder of its first credit tranche under the new quota, i.e., a drawing of approximately \$48 million. The Minister of Finance indicated that he plans to discuss this with you in the course of the meetings.

3. The Fund staff members present at the meeting indicated that the matter would, of course, have to be discussed with you. However, it was explained that even in the case of a first credit tranche drawing countries are expected to be making reasonable efforts to solve their problems in order to insure that the requested use of the Fund's resources is in accordance with the Articles of Agreement.

4. During the discussions of the Brazilian's policy plans for the immediate future, the Minister of Finance explained that no changes in the exchange system were contemplated at this time. With respect to the budget, the Minister stated that he expected to hold the budgetary cash deficit for 1959 to Cr\$ 20 billion. This compares with the original budget goal of holding the cash deficit for 1959 to Cr\$ 12 billion. The Minister indicated that for 1960, however, he expects to have a balanced budget. The 1960 budget, however, has not yet been approved by Congress. With respect to credit, the Minister could not indicate any specific targets, but said that the current restrictive credit policy would be continued. The credit ceilings on Bank of Brasil credit appear to have been exceeded as of the end of August by about Cr\$ 4 billion. With respect to the coffee stockpiling problem, the 1960-61 crop is expected to be a small one of around 20 to 22 million bags, compared to this year's crop of 30 million bags. With an export

quota of 18 million bags and domestic consumption of about 3 million bags, the amount to be stockpiled would be very small.

5. The staff members replied that in spite of the more favorable situation outlined for 1960, any staff report on the current situation would not be favorable. The rate of inflation appears to have accelerated during 1959. The cost of living in the first eight months of 1959 has increased by 33.7 per cent, 5.2 per cent increase occurring in August. This is substantially greater than the increase of 19 per cent in the whole of 1958 and 12 per cent in 1957. Currency issue has increased by Cr\$ 13.5 billion or 11 per cent in 1959, up to September 12. In the ten weeks since June 30, 1959 currency issue has increased by more than Cr\$ 9 billion compared with less than Cr\$ 3 billion in the same period of 1958. The recent acceleration in currency expansion appears to be related primarily to the use of the exchange profits account for coffee purchases and investment and subsidy operations of the Government.

6. In your discussion with the Brazilian delegation, you may wish to consider the following views of the staff:

(a) The Brazilian financial situation continues to deteriorate and there is no immediate prospect for firm internal budget and credit policies and modifications in the exchange system which would offer a reasonable hope for an improvement in the payments position.

(b) A Brazilian drawing of \$48 million in these circumstances would weaken the Fund's position in other member countries. For example, Argentina obtained only \$42.5 million from the Fund in support of thorough-going reforms.

(c) There does not appear to be any immediate urgency in the Brazilian situation. The Minister himself indicated that he does not expect any difficulties in meeting payments until December. The gold subscription payment to the Fund can be postponed under the recent Fund/Board decision. To meet the deficit expected in the last months of the year a number of alternatives are open to Brazil:

1. Utilization of lines of credit on New York banks and use of dollar reserves. In July and August, Brazil repaid \$11 million to the New York bank and at the end of August dollar reserves amounted to \$63 million.

ii. The Federal Reserve Bank of New York has offered to make a gold collateral loan of \$50 million.

iii. The Export-Import Bank has also offered to postpone principal payments on obligations maturing in the next 18 months.

(d) In view of the above, it is our opinion that no hope should be held out to the Brazilians on the use of Fund resources in present circumstances.

INTERNATIONAL MONETARY FUND

September 24, 1959



Mr. Cochran:

Attached is a memo showing the trend of certain key indicators of Brazil's financial situation.

You have probably noted elsewhere that the free market rate recently reached Cr\$173 per U.S. dollar.

G. A. Costanzo

Mr. C. David Finch

September 22, 1959

Gustavo Keeser

Brasil

Currency Issue and Government Borrowing

End of Period	Currency Issue	Government Borrowing ^{1/}
1957: December	96.6	39.4
1958: March	96.6	7.2
June	103.4	17.0
September	109.4	n.a.
December	119.8	25.6
1959: January	116.8	n.a.
February	116.8	3.8
March	121.0	9.1
April	122.9	12.1
May	125.3	15.7
June	125.3	16.3
Week ended:		
July 4	126.9	18.0
25	127.5	17.2
Aug. 1	128.2	18.0
29	131.2	17.3
Sep. 5	133.3	17.0
12	134.5	17.3

^{1/} Figures for March and June 1958, and for 1959 consist of Treasury borrowing from the Bank of Brasil plus net issue of Treasury bills less deposits of official entities at Bank of Brasil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual government cash deficit for these years.

Brazil-Exchange Market
(In cruzeiros per U.S. dollar)

	Agio per US\$ (Monthly Average) 1/	Free Market Rate (end of period) 2/
1957: December	66.8	90.5
1958: March	121.6	106.8
June	134.3	132.8
December	192.8	138.5
1959: January	220.5	143.6
February	262.8	139.8
March	276.0	139.5
April	222.1	136.5
May	177.9	131.3
June	166.3	147.8
Week ended:		
July 4	no auction	146.3
25	163.6	152.3
Aug. 1	162.6	151.9
29	157.4	151.8
Sept. 5	160.6	155.3
12	160.6	154.5

1/ For Rio de Janeiro and Sao Paulo; average of general and special categories.

2/ Midpoint rate. The weekly rates are for Friday of each week.
 (Source: AOFPI, Paris.)



Office Memorandum

ko

TO : Mr. C. David Finch

FROM : Gustavo Escobar

SUBJECT : Brazil

DATE: September 17, 1959

Currency Issue and Government Borrowing

End of period	Currency Issue	Government Borrowing 1/
1957: December	96.6	39.4
1958: March	96.6	7.2
June	103.4	17.0
September	109.4	n.a.
December	119.8	25.6
1959: January	116.8	n.a.
February	116.8	3.8
March	121.0	9.1
April	122.9	12.1
May	125.3	15.7
June	125.3	16.3
Week ended:		
July 4	126.9	18.0
25	127.5	17.2
Aug. 1	128.2	18.0
29	131.2	17.3
Sep. 5	133.3	17.0

1/ Figures for March and June 1958, and for 1959 consist of Treasury borrowing from the Bank of Brazil plus net issue of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual government cash deficit for those years.

Brazil--Exchange Market
(In cruzeiros per U.S. dollar)

	Agio per US\$ (Monthly Average) <u>1/</u>	Free Market Rate (end of period) <u>2/</u>
1957: December	66.8	90.5
1958: March	121.6	106.8
June	134.3	132.8
December	192.8	138.5
1959: January	220.5	143.6
February	262.8	139.8
March	276.0	139.5
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May	177.9	131.3
June	166.3	147.8
Week ended:		
July 4	no auction	146.3
25	163.6	152.3
Aug. 1	162.6	151.9
29	157.4	151.8
Sep. 5	160.6	155.3

1/ For Rio de Janeiro and Sao Paulo; average of general and special categories.

2/ Midpoint rate. The weekly rates are for Friday of each week.
(Source: AGEFI, Paris.)

W
September 17, 1959

Dear Mr. Galveas:

I wish to acknowledge receipt of your letter No. DE/DIVIN/
Cta. 223/59 of August 28, enclosing summary tables of the data
on government borrowing, currency issue, average agio for general
and special category auctions in Rio and Sao Paulo, and weekly sales
of exchange at auction.

With many thanks and warmest regards, I am,

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Ernane Galveas
Departamento Economico
Superintendencia da Moeda e de Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil

SEP 9 1959

Dear Dr. Bicalho:

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,

191

Per Jacobson
Managing Director

Honorable Mauricio Chagas Bicalho
Alternate Governor of the International
Monetary Fund for Brazil
Banco do Brasil
Rio de Janeiro, Brazil

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

GEB
DUX GEBishop:mc
9-8-59

PKH

SEP 9 1959

Sir:

This will acknowledge and thank you for your letter of August 31, 1959 (DE/DIVIN/Cta. 226/59) advising the Fund of the appointments of Dr. Sebastião Paes de Almeida, Minister of State for Finance, and Dr. Maurício Chagas Bicalho, President of the Banco de Brasil, as Governor and Alternate Governor, respectively, of the International Monetary Fund for Brazil.

Very truly yours,

Roman L. Horne
Secretary

Dr. Marcos de Souza Dantas
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
SEC

GEBishop:mc
9-8-59

Dux

GEB

R2H

SEP 9 1959

Dear Mr. Minister:

On behalf of the Executive Directors and staff of the Fund, it is my pleasure to send you congratulations on your recent appointment as Minister of Finance and to welcome you into the International Monetary Fund as Governor for Brazil.

I wish to assure you of our readiness to cooperate fully with you on all matters of mutual interest. We look forward to continued close relationships between Brazil and the Fund in the future.

Sincerely yours,

Per Jacobsson
Managing Director

His Excellency
Sebastiao Paes de Almeida
Minister of Finance
Ministerio da Fazenda
Rio de Janeiro, Brazil

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

GEBishop:mc
9-8-59

GERB Mx

R.H.



Office Memorandum

TO : Mr. C. David Finch

DATE: September 3, 1959

FROM : Gustavo Escobar *ge*

SUBJECT : Brazil

Currency Issue and Government Borrowing

End of Period	Currency Issue	Government Borrowing ^{1/}
1957: December	96.6	39.4
1958: March	96.6	7.2
June	103.4	17.0
December	119.8	25.6
1959: January	116.8	n.a.
February	116.8	3.8
March	121.0	9.1
April	122.9	12.1
May	125.3	15.7
Week ended:		
June 6	125.8	18.7
27	125.4	19.3
July 4	126.9	18.0
25	127.5	17.2
Aug. 1	128.2	18.0
8	129.8	17.7
15	130.4	17.4
22	130.4	16.7
29	131.2	17.3

^{1/} Figures for March and June 1958, and for 1959 consist of Treasury borrowing from the Bank of Brazil plus net issue of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual government deficit for those years.

Brazil--Exchange Market
(In cruzeiros per U.S. dollar)

	Agio per US\$ (Monthly average) <u>1/</u>	Free Market Rate (end of period) <u>2/</u>
1957: December	66.8	90.5
1958: March	121.6	106.8
June	134.3	132.8
December	192.8	138.5
1959: January	220.5	143.6
February	262.8	139.8
March	276.0	139.5
April	222.1	136.5
May	177.9	131.5
Week ended:		
June 6	167.8	132.3
27	159.3	141.5
July 4	no auction	146.3
25	163.6	152.3
Aug. 1	162.6	151.9
8	162.5	152.5
15	161.6	152.5
22	162.4	151.8
29	157.4	151.8

1/ For Rio de Janeiro and Sao Paulo; average of general and special categories.

2/ Midpoint rate. The weekly rates are for Friday of each week. (Source: AGEFI, Paris).



Office Memorandum

TO : Mr. C. David Finch
FROM : Gustavo Escobar *g.e.*
SUBJECT : Brazil

DATE: August 27, 1959

Noted

Brazil--Exchange Transactions in the Official Market January--June 1959

(In millions of U.S. dollars)

	Total	Convertible	Not Convertible
<u>Receipts</u>	514.0	398.0	116.0
<u>Exports</u>	507.9	393.1	114.8
Coffee	309.1	245.2	63.9
Other	198.8	147.9	50.9
Services and capital	5.2	4.4	0.8
Other	0.9	0.5	0.4
<u>Expenditures</u>	710.4	543.5	166.9
<u>Imports</u>	509.2	356.9	152.3
Preferential	300.7	212.1	88.6
Auction	201.6	137.9	63.7
Other	6.8	6.8	-
Services ^{1/}	63.4	62.0	1.4
Capital ^{2/}	136.9	123.7	13.2
Other	0.9	0.9	-
<u>Deficit (-)</u>	<u>-196.4</u>	<u>-145.5</u>	<u>-50.9</u>

Financing of deficit in convertible currencies ^{3/}

Swaps, net	88.9
Receipts (net) from purchases in free market, January-May	28.3
Lines of credit (net), January-May	16.0
Arbitrage (net)	-2.9
IMF (repayment) (-)	-20.3

Source: SUMOC, Estatística Nacional das Operações de Câmbio, Banco do Brasil, Carteira de Câmbio.

- 1/ Mostly interest payments on loans.
- 2/ Excludes \$20.3 million repayment to IMF.
- 3/ Total not shown since items are for non-comparable periods of time.



Office Memorandum

TO : Mr. C. D. Finch

DATE: August 25, 1959

FROM : G. Escobar *ge*

SUBJECT : Brazil

Currency Issue and Government Borrowing

End of Period	Currency Issue	Government Borrowing ^{1/}
1957: December	96.6	39.4
1958: March	96.6	7.2
June	103.4	17.0
December	119.8	25.6
1959: January	116.8	n.a.
February	116.8	3.8
March	121.0	9.1
April	122.9	12.1
May	125.3	15.7
Week ended:		
June 6	125.8	18.7
27	125.4	19.3
July 4	126.9	18.0
18	127.5	19.4
25	127.5	17.2
Aug. 1	128.2	18.0
8	129.8	17.7
15	130.4	17.4

^{1/} Figures for March and June 1958, and for 1959 consist of Treasury borrowing from the Bank of Brazil plus net issue of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual government deficit for those years.

Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

	Agio per US\$ (Monthly average) <u>1/</u>	Free Market Rate (end of period) <u>2/</u>
1957: December	66.8	90.5
1958: March	121.6	106.8
June	134.3	132.8
December	192.8	138.5
1959: January	220.5	143.6
February	262.8	139.8
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Week ended:		
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Aug. 1	162.6	151.9
8	162.5	152.5
15	161.6	152.5

1/ For Rio de Janeiro and Sao Paulo; average of general and special categories.

2/ Midpoint rate. The weekly rates are for Friday of each week.
(Source: AGEFI, Paris).

SEC-17,769

Translated by Sophia Rama

Reviewed by J. Findlay

136611

9/8/59

UNITED STATES OF BRAZIL
SUPERINTENDENCY OF MONEY AND CREDIT

DE/DIVIN/Cta. 226/59

Rio de Janeiro, August 31, 1959

Mr. Per Jacobsson
Managing Director
International Monetary Fund
Washington 25, D.C.
U.S.A.

Dear Mr. Jacobsson:

We have the honor to inform you that by Decree of August 27, 1959, His Excellency the President of the Republic relieved Dr. Lucas Lopes of the functions of Governor of the Fund, appointing Dr. Sebastião Paes de Almeida, Minister of State for Finance, to replace him; by the same Decree Dr. José Garrido Torres was relieved of the functions of Alternate Governor and Dr. Maurício Chagas Bicalho, President of the Banco do Brasil, appointed to replace him.

Very truly yours,

/s/

Marcos de Souza Dantas
Executive Director

Orig: SEC (Miss Stark)

cc: Mg. Dir.

Dep. Mg. Dir.

Mr. Paranagua

WHD

Received in Correspondence Sec. SEP 8 1959
Received from Translation Sec. SEP 8 1959

August 26, 1959

Dear Mr. Galveas:

I wish to acknowledge receipt of your letter No. DE/DIVIN/Cta. 201/59 of August 13; and letter No. DE/DIVIN/Cta. 209/59 of August 19, enclosing summary tables of the data on government borrowing, currency issue, average agio for general and special category auctions in Rio and Sao Paulo, and weekly sales of exchange at auction.

With many thanks and warmest regards, I am

Sincerely yours,

G. A. Costanzo
Acting Director
Western Hemisphere Department

Mr. Ernane Galveas
Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brasil.

SECRET

INCOMING MESSAGE

SECRET

6e
11
**INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.**

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK

34129

FILING TIME: 4:50PM August 11, 1959

VIA: WU

Number: 184

YOUR LETTER AUGUST 7 HAVE EARMARKED FOR YOUR ACCOUNT 283430.842 TROY
OUNCES OF FINE GOLD WE HAVE DEBITED YOUR NO. 1 ACCOUNT DOLLARS 9,944,879.62
AND \$400.22 COST OF GOLD AND EXPENSES

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Mr. Paranagu
WID
SEC

(Brazil)

Test number checks

Approved:

Received in Code Room: 6:02PM August 11, 1959

August 21, 1959

Dear Mr. Galveas:

I wish to acknowledge receipt of your letter No. DE/DIVIN/
Cta. 181/59 of July 31, enclosing summary tables of the data on
government borrowing, currency issue, average agio for general
and special category auctions in Rio and Sao Paulo, and weekly
sales of exchange at auction.

With many thanks and warmest regards, I am

Sincerely yours,

G. A. Costanzo
Acting Director
Western Hemisphere Department

Mr. Ernane Galveas
Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

INFORMATION COPY

INTERNATIONAL MONETARY FUND

August 17, 1959

Mr. Cochran:

Attached is a report for the
week ended August 8 on key financial
indicators for Brazil.

G. A. Costanzo

Mr. C. D. Finch

August 17, 1959

G. Escobar

Brasil

Currency Issue and Government Borrowing

End of Period	Currency Issue	Government Borrowing <u>1/</u>
1957: December	96.6	39.4
1958: March	96.6	7.2
June	103.4	17.0
December	119.8	25.6
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Aug. 1	128.2	18.0
8	129.8	17.7

1/ Figures for March and June 1958, and for 1959 consist of Treasury borrowing from the Bank of Brasil plus net issue of Treasury bills less deposits of official entities at Bank of Brasil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual government deficit for those years.

Small-Exchange Market

(In ounces per U.S. dollar)

Agio per us\$ (monthly average) \bar{x}
 Free Market Rate (end of period) \bar{y}

Year	Month	Agio per us\$ (monthly average) \bar{x}	Free Market Rate (end of period) \bar{y}
1957	December	66.8	90.5
1958	March	121.6	106.8
	June	134.3	132.8
	December	192.8	158.5
1959	January	220.5	143.6
	February	262.8	139.8
	March	276.0	139.5
	April	222.1	136.5
	May	177.9	131.5
Week ended:			
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	27	159.3	141.5
July	4	no auction	146.3
	18	165.4	147.7
	25	163.6	152.3
Aug.	1	162.6	151.9
	8	162.3	152.5

\bar{y} For Rio de Janeiro and Sao Paulo; average of general and special categories.
 \bar{x} Midpoint rate. The weekly rates are for Friday of each week. (Source: ABNT, Part 18).

SECRET

INCOMING MESSAGE

SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERNATIONAL MONETARY FUND
FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK
FILING TIME: 4:53PM August 17, 1959
VIA: WU

34185

Number: 189

YOUR LETTER AUGUST 14 \$4,913.25 TRANSFER EFFECTED
FEDERAL RESERVE BANK OF NEW YORK

(Brazil)

Orig: TRE
cc: Mr. Paranagua
WHD
SEC

Test number checks

Approved:


Received in Code Room: 5:52PM August 17, 1959

11
AUG 11 1958

Dear Mr. Meira:

I have recently been notified by your Washington representative, Mr. Zeuxis F. Neves, of your appointment as President of the Banco Nacional do Desenvolvimento Economico. Please accept my congratulations on your new position as President of that Institution.

Sincerely yours,



H. Merle Cochran
Acting Managing Director

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

Vice-Admiral Lucio Meira
President
Banco Nacional do Desenvolvimento Economico
Rua 7 de Setembro, 48
Rio de Janeiro, Brazil.

152/c
BBrovedani/GEscobar;bjw

SECRET

INCOMING MESSAGE

SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

W/11

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK

34037

FILING TIME: 4:43 PM August 3, 1959

VIA: WESTERN UNION

Number: 176

HAVE CREDITED YOUR NO. 1 ACCOUNT \$30,000 BY ORDER OF BANCO DO BRASIL, S.A.,
RIO DE JANEIRO

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Mr. Paranagua
#HD
SEC

Test number checks:

Approved:

Received in Code Room: 8:40 AM August 4, 1959

W
August 4, 1959

Dear Mr. Galveas:

I wish to acknowledge receipt of your letters Nos. DE/DIVIN/Cta. 161/59 of July 4, DE/DIVIN/Cta. 168/59 of July 15, DE/DIVIN/Cta. 171/59 of July 17, and DE/DIVIN/Cta. 177/59 of July 23, enclosing summary tables of the data received by weekly cable in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Ernane Galveas
Chefe, Departamento Economico
Superintendencia da Moeda e de Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

W
11
August 4, 1959

Dear Mr. Galveas:

I wish to acknowledge receipt of your letters Nos. DE/DIVIM/
Cta. 151/59 of June 22 and DE/DIVIM/Cta. 156/59 of June 25, en-
closing summary tables of the data received by weekly cable in ac-
cordance with the agreement between the International Monetary
Fund and the Brazilian Government.

Sincerely yours,

Jorge Dal Canto
Director
Western Hemisphere Department

Mr. Ernane Galveas
Chefe, Departamento Economico
Superintendencia da Moeda e de Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

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

No. 6

Charges due pursuant to Article V, Section 8(c)
 for period ended July 31, 1959 amount to 10,245.735
 troy ounces of fine gold; advice airmailed today. These
 charges are payable within 30 days from date of cable.

Code

Text No.

INTERFUND

Dr. By AMathuran/ams
Office of the
 Department Treasurer
 Date August 1, 1959

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

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM

Time Received 5:25 PM
 Time Dispatched 5:42 PM
 Number of Words 22
 Log 28778
 Route 102
 Operator 102



DO NOT TYPE BELOW THIS LINE

INTERNATIONAL MONETARY FUND

July 13, 1959

Mr. Cochran:

Attached is the usual weekly
report on financial developments
in Brazil.

G. A. Costanzo

Mr. Costanzo

July 10, 1959

E. Zayas

Brazil--Report for the week ending July 4, 1959

There was no exchange auction during the week under review. In the free exchange market the cruzeiro depreciated to Cr\$145 to the dollar, approximately equal to the lowest level reached in January 1959.

For the second successive week, Government receipts exceeded expenditures and the accumulated cash deficit in the year declined from Cr\$20.0 billion on June 20 to Cr\$19.5 billion on June 27 and to Cr\$18.0 billion on July 4. However, the latter figure is still somewhat higher than the deficit incurred in the corresponding period of 1958.

The currency issue increased by Cr\$1.5 billion during the week ending July 4 to Cr\$126.9 billion, in spite of the improvement in the Government position during that week. Through July 4, 1959 the currency issue increased by 6 per cent, slightly less than the increase recorded in the same period of 1958.

Brasíl--Currency Issue and Government Borrowing

End of Period	Currency Issue	Government Borrowing
1957: December	96.6	39.4
1958: March	96.6	7.2
1958: June	103.4	17.0
1958: December	119.8	25.6
1959: January	116.8	n.s.
1959: February	116.8	3.8
1959: March	121.0	9.1
1959: April	122.9	12.1
Week ended:		
May 9	124.1	14.6
23	124.0	16.0
30	125.3	15.7
June 6	125.8	18.7
13	126.0	18.2
20	125.8	20.0
27	125.4	19.3
July 4	126.9	18.0

Figures for March and June 1958, and for 1959 consist of Treasury borrowing from the Bank of Brazil plus net issue of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual government deficit for those years.

Brasil--Exchange Market
(In cruzeiros per U.S. dollar)

	Agio per US\$ (Monthly average) ^{1/}	Free Market Rate (end of period) ^{2/}
1957: December	66.8	90.5
1958: March	121.6	106.8
June	154.5	152.8
December	192.8	178.5
1959: January	220.5	145.6
February	262.8	159.8
March	276.0	179.5
April	222.1	156.5
May 9	178.4	150.5
23	186.8	154.4
30	160.2	151.5
June 6	167.8	152.5
13	175.4	158.8
20	165.0	156.5
27	159.5	157.0
July 4	no auction	145.0

^{1/} For Rio de Janeiro and Sao Paulo; average of general and special categories.

^{2/} Midpoint rate. The weekly rates are for Friday of each week.
 (Source: AGEPI, Paris).

SEC-17499

Translated by Sophia Ramm

Reviewed by K.F. Magurn

134710

July 1, 1959

UNITED STATES OF BRAZIL

SUPERINTENDENCY OF MONEY AND CREDIT

Rio de Janeiro, June 20, 1959

DE/DIVIN/Cta. 149/59

The Secretary
International Monetary Fund
Washington 25, D.C.

Dear Sir:

This is to inform you that Messrs. Ernane Galveas and Mauricio Ferreira Bacellar were appointed Assistants to the Chief of the Economic Department of this Superintendency by act of the Executive Director of April 14, 1959.

We are sending you enclosed specimens of the signatures of Messrs. Galveas and Bacellar who are also authorized from now on to sign all correspondence concerning publications and statistical data requested by your organization in accordance with the provisions of the Articles of Agreement.

Very truly yours,

/s/ Herculano Borges da Fonesca

Chief, Economic Department

Received in Correspondence Sec. JUN 30 1959
Received from Translation Sec. JUL 1 1959

Received in Correspondence Sec. JUN 30 1959
Received from Translation Sec. JUL 8 1959

Orig: SEC
Co: WHD
Mr. Tun Wai
Mr. Høst-Madsen



Superintendência da Moeda e do Crédito

ASSINATURA AUTORIZADA DO SR. ERNANE GALVEAS :

ERNANE GALVEAS

Adjunto do Chefe do Departamento Econômico

ERNANE GALVEAS

Adjunto do Chefe do Departamento Econômico

ASSINATURA AUTORIZADA DO SR. MAURICIO FERREIRA BACELLAR :

MAURICIO FERREIRA BACELLAR

Adjunto do Chefe do Departamento Econômico

MAURICIO FERREIRA BACELLAR

Adjunto do Chefe do Departamento Econômico

JUL 8 1959

Dear Mr. Borges da Fonseca:

This will acknowledge and thank you for your letter of June 20, 1959 (DE/DIVIN/Cta.149/59) advising that Messrs. Ernane Galveas and Mauricio Ferreira Bacellar are authorized to sign on behalf of Superintendencia da Moeda e do Credito in respect to correspondence concerning publications and information required by the Fund Agreement.

Sincerely yours,

Florence Hodel
Acting Secretary

Mr. Herculano Borges da Fonseca
Chefe do Departamento Economico
Superintendencia da Moeda e do Credito
120 Avenida Rio Branco, 9º andar
Rio de Janeiro, Brazil

cc: SEC
WHD
Mr. Tun Yai
Mr. Hout-Madsen

GEBishop:mw
7-8-59

HERB

1-1 Mac

Mr. Paul J. Brand

July 7, 1959

E. Zayas

Brasil--Report for the week ending June 27, 1959

The average agio resulting from exchange certificate auctions for imports of the general and special categories was Cr\$159.3 during the week ending 27. This represented the second successive decline during June and brought the agio back to the level at the end of May. The decline in the agio in the last two weeks reflects a reduced demand as there has been no change in the amount of exchange offered in the auction market.

The quotation of the dollar in the free market was Cr\$137.0 on June 26, practically the same rate quoted in the preceding two weeks.

The Government deficit declined slightly in the week under review, following an increase of nearly Cr\$2 billion in the preceding week. Through June 27, 1959 the Government deficit totaled Cr\$19.3 compared with Cr\$17.0 billion of deficit incurred in the first half of 1958.

The currency issue showed very little variation during June. On the 27th it amounted to Cr\$125.4 billion, a decline of Cr\$0.4 billion in a week and only Cr\$0.1 billion above the level at the end of May.

Brazil--Currency Issue and Government Borrowing

End of Period	Currency Issue	Government borrowing 1/
1957: December	96.6	39.4
1958: March	96.6	7.2
June	103.4	17.0
December	119.8	25.6
1959: January	116.8	n.a.
February	116.8	3.8
March	121.0	9.1
April	122.9	12.1
Week ended:		
May 9	124.1	14.6
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June 6	125.8	18.7
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Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

	Agio per US\$ ^{1/} (Monthly average)	Free Market Rate (end of period) ^{2/}
1957: December	66.8	90.5
1958: March	121.6	106.8
June	134.3	132.8
December	192.8	138.5
1959: January	220.5	143.6
February	262.8	139.8
March	276.0	139.5
April	222.1	136.50
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23	186.8	134.4
30	160.2	131.3
June 6	167.8	132.3
13	173.4	138.8
20	165.0	136.5
27	159.3	137.0

^{1/} For Rio de Janeiro and Sao Paulo; average of general and special categories.

^{2/} Midpoint rate. The weekly rates are for Friday of each week. (Source: AGEFI, Paris).

The Managing Director

June 30, 1959

Paul J. Brand and Edgar Jones

Brazil--Change in Exchange Rate for Coffee

According to a report in the New York Times of June 29, Brazil has established an exchange rate of Cr\$76 per U.S. dollar for coffee exports of the new crop, effective July 1. The coffee rate previously had been Cr\$60 per U.S. dollar. It will be noted that a rate of Cr\$80 was mentioned in our recent discussions with the Brazilians. A change in the exchange system of this kind should normally be reported to the Fund prior to its introduction.

Along with the change in the export rate, the internal purchase price for coffee to be retained was reportedly raised from Cr\$1,600 to Cr\$1,950 per bag for 30 per cent of the crop and from Cr\$100 to Cr\$200 for the 10 per cent of low-grade coffee. This is contrary to the indications given by the Brazilians that they would reduce the compensation paid for coffee retained for stockpiling.

Since we cannot take action on the basis of a press report, it is suggested that if no official communication is received within the next few days, we ask Mr. Paranagua to obtain official information about these changes. A draft memorandum for this purpose is attached. We suggest that the Board be notified of the changes in the form of a supplement to the Staff Report on the 1958 Consultations with Brazil (RM/59/25).

It is suggested that the memorandum from you to Mr. Paranagua be sent on Monday, July 6th, assuming that no official information has been received before that date.

Attachment

cc: The Deputy Managing Director



Office Memorandum

Noted for
TO : Mr. C. D. Finch

DATE: June 26, 1959

FROM : Gustavo Escobar *GE.*

SUBJECT : Brazil--Developments in the week ended June 20, 1959

The average agio for the general and specific categories was Cr\$165.0 in the week ended June 20, only slightly more appreciated than in the preceding week.

After increasing to Cr\$139 in the middle of June as a result of speculative transactions originating with the ~~announcement~~^{announcement} of the termination of discussions with the Fund, the free rate has declined to Cr\$136.5 on June 22.

The government deficit rose sharply from Cr\$18.2 billion on June 13 to Cr\$20.0 billion on June 20, Cr\$3 billion above the deficit for the end of June last year. The currency issue, however, was nearly unchanged at Cr\$126 billion during the same period.

Brazil--Currency Issue and Government Borrowing

End of Period	Currency Issue	Government borrowing <u>1/</u>
1957: December	96.6	39.4
1958: March	96.6	7.2
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February	262.8	139.8
March	276.0	139.5
April	222.1	136.50
May 9	178.4	130.3
23	186.8	134.4
30	160.2	131.3
June 6	167.8	132.3
13	173.4	138.8
20	165.0	136.5

^{1/} For Rio de Janeiro and Sao Paulo; average of general and special categories.

^{2/} Midpoint rate. The weekly rates are for Friday of each week.
(Source: AGEFI, Paris).

JUN 29 1959

Dear Mr. Combs:

I have read your letter of June 25 and the attached copy of a communication from one of your member firms with considerable interest. The problems to which your correspondent refers, arising from discrimination by certain countries, including Brazil, against imports from the United States and other sources, are of course of direct concern to the Fund.

As you are no doubt aware, countries which are members of the Fund undertake to refrain, except in those circumstances in which the Fund gives its approval, from making use of discriminatory currency practices of all types. It is a constant concern of the Fund to secure as complete compliance as may be possible both with the letter and the spirit of this undertaking. One of the principal purposes of an operation of the type recently contemplated with Brazil is to provide financial backing for an exchange reform whereby such practices can be terminated and imports from all sources accorded equal treatment in the markets of the member country concerned. The resources of the Fund, however, are made available for general balance of payments support and are available to meet all types of current and normal capital payments. It is not Fund practice to require members making use of its resources to allocate such exchange to specific purchases or to purchases from specified member countries.

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

cc: Mr. Frank A. Southard, Jr.

Mr. William F. Combs
Executive Director
United States Inter-American Council, Inc.
15 Park Row,
New York 38, New York.

RRadford:ghb
June 29, 1959



UNITED STATES INTER-AMERICAN COUNCIL, INC.

FOUNDED 1941

INCORPORATED AS A NON-PROFIT MEMBERSHIP CORPORATION UNDER THE LAWS OF NEW YORK

15 PARK ROW, NEW YORK 38, N. Y.

Telephone: BEekman 3-3950 • Cables: "NYUSIAC"

June 23, 1959

Chairman
H. W. BALGOOYEN
American & Foreign
Power Company Inc.

Senior Vice Chairman
CHARLES A. MEYER
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Vice Chairman
R. DeF. BOOMER
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Corporation

HARRY X. KELLY
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J. H. WHITMAN
First National City
Bank of New York

Treasurer
KENNETH H. CAMPBELL
Chamber of Commerce
of the United States

Secretary
YADA HORSCH
National Association
of Manufacturers

Executive Director
WILLIAM F. COMBS

Mr. Jorge Del Canto
Director
Western Hemisphere Department
International Monetary Fund
19th & H Streets, N. W.
Washington, D. C.

Dear Mr. Del Canto:

Re: Brazilian Loan from International Monetary Fund

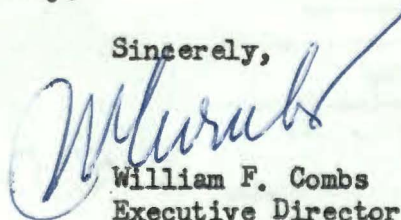
One of our members has sent us the attached letter which raises several important questions in regard to application by Brazil of dollar exchange funds received from IMF or other sources.

We are of course aware that negotiations for the \$300-million loan referred to in this letter have been suspended, at least for the time being; however, we believe the principles set forth in this letter have merit, apart from this or any other particular negotiation. While we recognize that there is no compelling reason for the IMF to favor exporters in the U. S. as against exporters from other countries, still it would seem that they would be entitled to some preference by virtue of the large proportion of the capital of the IMF which has been supplied by the U. S.; and, in any case, it seems to us there is reason to favor exporters of the U. S. or other nations of the Western World as against exporters from Iron Curtain countries.

We shall appreciate it if you will give this letter your careful consideration and let us have your comments for reply to this member and to others who have expressed concern along similar lines.

Thank you for your courtesy.

Sincerely,



William F. Combs
Executive Director

WFC:amb
Att.

cc: Mr. Frank A. Southard, Jr.,
Executive Director (U.S.), International Monetary Fund

The United States Inter-American Council is the U.S. section of the Inter-American Council of Commerce and Production — a Western Hemisphere private enterprise organization of commerce and industry associations, companies, and individuals.

INTER-AMERICAN COUNCIL OF COMMERCE AND PRODUCTION
Misiones 1400, Montevideo, Uruguay

President • Lic. Agustín Legorreta • Mexico

Secretary General • Dr. Carlos Ons Cotelo • Uruguay

UNITED STATES INTER-AMERICAN COUNCIL, INC.

MEMBERS

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Burroughs Corporation
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Chemical Corn Exchange Bank
Chrysler Export Division
Coca-Cola Export Corporation
Combustion Engineering, Inc.
Continental Illinois National Bank
and Trust Company of Chicago
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First National Bank of Chicago
First National City Bank of New York
General Foods Corporation
General Motors Overseas Operations
The Gillette Company
Goodyear International Corporation
W. R. Grace & Co.
Guaranty Trust Company of New York
Gulf Oil Corporation
Hardware Mutual Casualty Company
Harnischfeger Corporation
Haskins and Sells
Hayden, Harding and Buchanan, Inc.
Home Products International, Ltd.
Hughes Tool Company
R. A. Hummel
IBM World Trade Corporation
Inland Steel Company
Insurance Company of North America
Interamerican Capital Corporation
International Basic Economy Corporation
International General Electric Company
International Harvester Company
International Packers, Ltd.
International Telephone and Telegraph Corporation
Irving Trust Company
Johns-Manville International Corporation
Johnson & Johnson International
S. C. Johnson and Son, Inc.
Kennecott Copper Corporation
Lehman Brothers
Liberty Mutual Insurance Company
Lincoln National Life Insurance Company
Carl M. Loeb, Rhoades & Co.
Lox Star Cement Corporation
Lumbermens Mutual Casualty Company
Lykes Brothers Steamship Company, Inc.
McGraw-Hill Publishing Company, Inc.
McKinsey and Company
Merchants National Bank of Mobile
Michigan Mutual Liability Company
Mississippi Shipping Company, Inc.
Mobil Overseas Oil Company, Inc.
Momsen and Freeman
Moore-McCormack Lines, Inc.
National Association of Manufacturers
National Bank of Detroit
The National Cash Register Company
New York Stock Exchange
Olin Mathieson International Corporation
Oscar D. O'Neill, Inc.
Otis Elevator Company
Pan American-Grace Airways
Pan American World Airways, Inc.
The Quaker Oats Company
Radio Corporation of America
The Readers Digest
Roberts and Holland
Ruder and Finn Incorporated
Noel Sargent
Herbert H. Schell
Schering Corporation
Sears, Roebuck and Company
Shell Caribbean Petroleum Company
The Sherwin-Williams Company
Singer Sewing Machine Company
South American Gold and Platinum Company
C. H. Sprague and Son Company
Standard Oil Company of California
Standard Oil Company (New Jersey)
The Texas Company
Time-Life International
Underwood Corporation
Union Carbide International Company
United Fruit Company
United Shoe Machinery Corporation
United States Steel Export Company
Vision Incorporated
Western Union Telegraph Company
Westinghouse Electric International Company
Whitney National Bank of New Orleans
John Wood Company
Worthington Corporation

June 11, 1959

United States Inter-American Council, Inc.
15 Park Row
New York 38, New York

Subject: Requested Brazilian Loan from International Monetary Fund

Gentlemen:

Recent press releases in regard to the Brazilian Government's application for a \$300,000,000 loan from the International Monetary Fund are of considerable interest to _____ as they should be to all U.S. firms who have in the past and are currently selling to and operating in Brazil.

Since the beginning of export operations of _____ we have been active in the Brazilian market and have remained active, both during Brazil's good times and bad times. Presently, we have a subsidiary and branch operation in Brazil.

The current policies of the Brazilian Government in regard to importation of agricultural equipment under Brazilian Decree 40260 are of grave concern to us. It is disheartening to American manufacturers, who have stood by Brazil in times of difficulty and who have considerable investments in Brazil, to now find the money allocated to Decree 40260 being spent strictly in soft currency countries, especially Poland, Czechoslovakia, Hungary and Yugoslavia. It is quite apparent to our organization in Brazil that the Brazilian farmer is also suffering under this policy, due to the fact that the equipment from the Iron Curtain countries is inferior both in manufacture and in parts and repair services.

Our reason for outlining the above problems and bringing this matter to your attention is the desirability of obtaining more favorable consideration for United States manufacturers, should the requested International Monetary Fund loan of \$300,000,000 be granted. It is hoped that a concerted effort by United States manufacturers as well as organizations such as your own can bring about sufficient pressure to obtain a limitation to any loan granted, specifying that a percentage of the loan is to be channeled into Decree 40260 and that of these funds a proportionate percentage be reserved for purchase of United States manufactured merchandise.

We would appreciate your assistance in any way possible in bringing about the concerted effort which will be required if favorable consideration to United States manufacturers is expected. Any information concerning steps already taken, contemplated or which you would suggest be taken in this matter would be appreciated.

Very truly yours,

JUN 26 1959

Dear Mr. Byrne:

I have your letter of the 22nd, bringing to our attention Instruction #181 of the Superintendency of Money and Credit.

We shall be glad to give attention to the points you raise in connection with Brazil.

Sincerely yours,

114

Gordon Williams

Mr. John T. Byrne
Chairman
Freedom of Insurance Committee
International Union of Marine Insurance
111 John Street
New York 38, N.Y.

cc: Mg. Dir.
Dep. Mg. Dir.
UN Rep.
Mr. Costanzo
Mr. Kalivoda

6/26/59

INTERNATIONAL UNION OF MARINE INSURANCE

FREEDOM OF INSURANCE COMMITTEE

RECEIVED
CORRESPONDENCE
SECTION

JOHN T. BYRNE, Chairman

Telephone: BEekman 3-3112
Cable Address: TALBOTBIRD

111 John Street
New York 38, N. Y.

JUN 25 12 15 PM 1959

INTERNATIONAL
MONETARY
FUND

Orig: UN Rep.
Cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Costanzo
Mr. Kalivoda

June 22, 1959

Mr. Gordon Williams
Assistant To Managing Director
International Monetary Fund
Nineteenth and H Streets, N. W.
Washington, D. C.

Dear Mr. Williams:

Freedom of Transport Insurance: Brazil

You will recall that the International Monetary Fund has informed the United Nations of its continuing interest in the subject of freedom of transport insurance. The Fund has indicated particular interest insofar as exchange controls may become involved for purposes of discouraging or prohibiting the use of foreign exchange to pay insurance premiums. We have in recent years appreciated our discussions with you regarding this subject.

In this connection I wish to draw your attention to Instruction #181 of the Superintendency of Currency and Credit of Brazil, issued April 24, 1959. The following paragraphs are quoted from a free translation of the instruction:

"1. all Brazilian imports shall have coverage in the official exchange market only for the value of the respective merchandise free on board in the foreign port of shipment (F.O.B. value);

"2. as a result (of the foregoing), the respective maritime freight and insurance services shall be liquidated in cruzeiros, this being permitted in the free exchange market of freely convertible currencies, or when referring the merchandise imported from bilateral areas, in the respective covenant currency."

It would seem quite clear that the above-quoted provisions will limit the freedom with which Brazilian importers reach a decision regarding placement by the importer or by the importer's supplier of the insurance coverage on the shipment involved.

Mr. Gordon Williams:

-2-

June 22, 1950

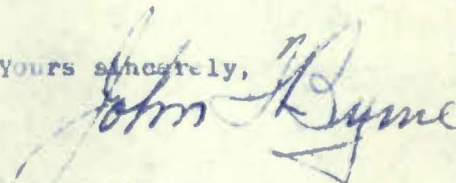
Hence, we ask that the Fund interest itself in determining the justification for the instruction. Also, we respectfully suggest with respect to such an inquiry, that the Fund bear in mind the degree of economic and financial aid now being used and/or sought by Brazil from other countries or from the Fund.

It concerns us that such assistance, when translated into purchasing power and into shipments imported in Brazil, actually becomes an influence to divert insurance premiums on the resulting shipments from a competitive world market into a controlled domestic market. It is suggested that if the Fund extends financial assistance to Brazil, a provision should be made that Brazil will not apply restrictive exchange controls which abuse the international support rendered to that country.

We would welcome an opportunity to discuss this matter with you.

With best regards,

Yours sincerely,



JOHN T. BYRNE
Chairman

Freedom of Insurance Committee

SEC-17484
Translated by J. Findlay
Reviewed by K.F. Magurn
134825
June 24, 1959

UNITED STATES OF BRAZIL
SUPERINTENDENCY OF MONEY AND CREDIT

Rio de Janeiro, June 17, 1959

DE/DIVIN/Cta. 146/59

The Secretary
International Monetary Fund
Washington 25, D.C.
U.S.A.

Dear Sir:

We enclose a copy of Instruction No. 184 issued by the Superintendency.

Very truly yours,

ECONOMIC DEPARTMENT
International Division

/s/ Ernane Galveas
Assistant Department
Chief

/s/ Henrique de Oliveira Duprat
Acting Division Chief

Enclosure

MBC/RM

Received in Correspondence Sec. JUN 23 1959
Received from Translation Sec. JUN 24 1959

Orig: WHD
Cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Paranagua
ERD
LEG
RES
TRE
SEC

UNITED STATES OF BRAZIL
SUPERINTENDENCY OF MONEY AND CREDIT

COPY

INSTRUCTION NO. 184

The Superintendency of Money and Credit, in accordance with the decision of the Council taken at the meeting of June 8, 1959; in conformity with Article 3(h) and Article 6 of Decree-Law No. 7,293 of February 2, 1945; and considering:

The concern of the Government of the Republic with the economic recovery of the northeastern region, as considered and defined in Decree No. 45,445 of February 20, 1959, resolves:

The State of Bahia shall be included among the Federal units referred to in Item IV of Instruction No. 135 of July 19, 1956.

Rio de Janeiro, June 13, 1959

Superintendency of Money and Credit

(s) Jose Garrido Torres, Executive Director

Diario Oficial of June 15, 1959

RM

134825



Superintendência da Moeda e do Crédito

Rio de Janeiro, 17 de junho de 1959

DE/DIVIN/Cta. 146/59

Ilmo. Sr.
Secretário do Fundo Monetário Internacional
Washington 25, D.C.
Estados Unidos da América do Norte

INTERNATIONAL
MONETARY
FUND

JUN 23 11 24 AM 1959

RECEIVED
RESPONSE
SECTION

Prezado Senhor,

Temos o prazer de enviar a V.Sa., em anexo, cópia da Instrução nº. 184 baixada por esta Superintendência.

Atenciosas saudações,

DEPARTAMENTO ECONÔMICO
Divisão de Assuntos Internacionais

Ernane Galvêas

Adjunto do Chefe do Departamento

Henrique de Oliveira Duprat

Chefe da Divisão, Interino.

ANEXO

MBC/RM



Superintendência da Moeda e do Crédito

C ó p i a

INSTRUÇÃO Nº 184

A SUPERINTENDÊNCIA DA MOEDA E DO CRÉDITO, na forma da deliberação do Conselho, em sessão de 8 do corrente, tendo em vista o disposto nos arts. 3º, alínea h, e 6º do Decreto-lei nº 7.293, de 2-2-45, e considerando:

- o empenho do Govêrno da República na recuperação econômica da região do Nordeste, assim considerada e definida no Decreto número 45.445, de 20 de fevereiro de 1959, resolve:

Fica incluído o Estado da Bahia entre as unidades federadas de que trata o item IV da Instrução nº 135, de 19-7-56.

Rio de Janeiro, 13 de junho de 1959

Superintendência da Moeda e do Crédito

as) José Garrido Torres, Diretor Executivo

D.O. de 15.6.59

/RM
aly

June 22, 1959

Dear Mr. Fonseca:

I wish to acknowledge receipt of your letters Nos. DE/DIVIN/Cta. 130/59 of June 3 and DE/DIVIN/Cta. 140/59 of June 10th, enclosing summary tables of the data received by weekly cable in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

(Signed) G. A. Costanzo
G. A. Costanzo
Acting Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe, Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

INTERNATIONAL MONETARY FUND

June 18, 1959

The Managing Director:

Attached for your information is a translation of an editorial which appeared in the Diario de Noticias of Rio de Janeiro on June 10.

G. A. Costanzo

Source: Diario de Noticias, Rio de Janeiro, June 10, 1959

MONETARY FUND

Mr. Juscelino Kubitschek announced yesterday to a group of senators in his party that his Government had decided to break off negotiations with the International Monetary Fund for loans to cover Brazil's balance of payments deficit. These loans were instead to be sought direct from the U.S. Government, whose influence in the Fund is regarded as decisive by our Government. Should these direct negotiations fail, economic and financial measures would be taken to allow the country to conquer its foreign exchange crisis with its own resources.

Proper comprehension of the problem requires a knowledge of the purposes of the Monetary Fund. One of the functions of this organization is to aid countries faced with temporary disequilibria of their balance of payments. Such was the case of Brazil in 1958, when it was aided by the Fund, which lent it \$75 million. A Fund loan amounts to an endorsement of the borrower country, since these loans are granted only after a thorough examination of the borrower's position. It was therefore possible for Brazil to obtain further resources on the same occasion, \$100 million from the Export-Import Bank and \$58 million from a group of US banks, in addition to the utilization of the Fund credit.

*

Brazil's position now shows not a temporary but a fundamental disequilibrium. In such a case the Fund takes different action. Mere aid is not enough. It is necessary to recommend a policy which will make it possible to eliminate the causes of this fundamental disequilibrium within a certain time. This has happened most recently with India, Chile, and Argentina. The Fund, it should be

remembered, is an international organization, and the most orthodox influence on the application of its policy comes not from the Americans on its Executive Board but chiefly from the Europeans.

We do not know what recommendations were made by the Fund to the Kubitschek Government except for what we have learned unofficially, since unfortunately, although these negotiations were regrettably broken off months ago, the Government has not seen fit to give the least satisfaction to public opinion on a subject that concerns not only the President's friends and the members of his party but the entire country. There have been rumors, however, of exigency in regard to the oil policy, which, if true, must no longer be wrongfully withheld from the people. The matter is one which must be discussed frankly and not restricted to closed Government circles.

*

It is worth recalling once more that the balance of payments disequilibrium is a result of the orientation of the present Government. Public opinion should be alerted to the fact that our exchange receipts have shrunk by some \$300 million--the exact amount of the loans now being sought from the Fund--as a result of the decline in coffee prices. It must not be forgotten that the Government over a year ago gave up the fight to maintain coffee prices, a policy it had adopted in mid-1957 and which this paper, notwithstanding its differences with the present Government, applauded in the name of the national interest.

Neither must we forget the fact that the Government has squandered our gold and foreign exchange reserves, the latter being almost exhausted while the former have not been heard of for a long time. The Kubitschek Government has gone further. Not content with spending more than it could afford on the execution of a program out of proportion to our means, it is now compromising our future resources by allowing purchases to be made on which payment will not be due for at least three

years. This fact alone makes the idea that we ^{can} deal with the foreign exchange crisis on our own appear ridiculous.

*

In this state of affairs the Government can no longer handle the problem of disequilibrium of the balance of payments by following detours and byroads. It is futile to employ such measures to conceal one's own errors and failures. It is not the interests of Mr. Kubitschek that are at stake but those of Brazil itself, at grips with an economic and financial crisis without precedent in its history and one which is fast becoming a grave social crisis as well, because of the obvious inability of the Government to solve the problems at hand.

The nation needs straight talk from the Government on the present situation if the latter wants help from the people in solving its difficulties. We are concerned with extricating the country from the predicament into which Mr. Kubitschek has brought it, since it is not a question of saving his Government but of fighting for this nation's survival. We all sense the gravity of the situation; no citizen can refuse his aid in the struggle to overcome the crisis which is growing worse daily. This will be possible, however, only if the Government can maintain an attitude worthy of the mission with which it has been entrusted.

SECRET

INCOMING MESSAGE

SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: _____ INTERFUND FOR MANAGING DIRECTOR

FROM: _____ SUPERINTENDENCIA DA MOEDA E DO CREDITO, RIO DE JANEIRO

33603

FILING TIME: _____ 5:45 PM June 18, 1959 _____

VIA: _____ A C & R _____

Number : _____ 1 _____

REFER TO YOUR CABLE NUMBER 5 JUNE 3RD. FUND'S NUMBER ONE
ACCOUNT HAS BEEN DEBITED WITH CRUZEIROS 374,625,000 VALUE
JUNE 2, 1959.

JOSE GARRIDO TORRES
EXECUTIVE DIRECTOR
SUPERINTENDENCIA DA MOEDA E DO CREDITO

Orig: TRE
cc: Mr. Paranagua
VHD
SEC

Test number checks:

Approved:

Received in Code Room : _____ 6:05 PM June 18, 1959 _____

Managing Director

June 12, 1959

G. A. Costanzo

Brazil

Attached are first a memorandum based on the statistical information received by cable from Brazil and second, press clippings relating to recent developments in connection with the negotiations with Brazil with the Fund. With respect to the announcement of the President it is understood he used your language that he wished to make an appeal to the United States Government on political grounds and to terminate the attempt to find an acceptable technical plan. Given that the President feels he cannot politically undertake the necessary adjustments, this is a most satisfactory development from our point of view. The Fund is no longer in the awkward position of standing between the U.S. and Brazil in negotiations which have political overtones.

According to the New York Times the United States has proposed negotiations on debt rescheduling with all creditors. With this approach the worst of the payments difficulties can be avoided. Moreover, by alerting creditors to the problem it will limit the further acquisition of debt at this time and ensure a more satisfactory basis for an eventual stabilization program.

Attachments

June 10, 1959

Major Items of Debt Service (capital and interest) Due
in 2nd Half 1959, 1st Half 1960, and 2nd Half 1960

(In millions of U.S. dollars)

	1959	1960	
	2nd Half	1st Half	2nd Half
1. Export-Import Bank			
a. Balance of payments loans	28.7	28.7	28.5
b. Specific projects	21.0 ^{1/}	20.0 ^{1/}	19.0 ^{3/}
2. U.S. commercial banks	8.0	5.0	10.2
a. \$58 million loan	10.8	10.5	10.2
b. \$200 million gold collateral loan	4.5	4.5	29.5
3. Consolidated sterling commercial arrears	8.4	8.3	8.3
4. External bonded public debt in hands of public abroad	12.1	8.4	8.4
5. Suppliers' credits			
a. U.S. exporters	20.4	21.8	23.8
b. Other exporters	25.4	25.8	23.6
6. IBRD	3.2 ^{1/}	4.0 ^{1/}	4.0 ^{1/}

^{1/} Estimates on basis one half of obligations due in whole of 1959 and 1960.

^{2/} Interest, first principal payment due in last half 1960.

^{3/} Excludes \$6.7 million CCC wheat loan.

CONFIDENTIAL

Mr. H. Merle Cochran

June 9, 1959

Edgar Jones

Japan - Trade and Payments Relations with Brazil

Mr. Yoshioka, head of the Japanese mission to the Article XIV consultations, accompanied by Mr. Kashiwagi of the Japanese Embassy and Mr. Hirai, called to see me yesterday. The object of the visit was to discuss their trade and payments relations with Brazil. I was told that Japan, after considerable intragovernmental discussion in Tokyo, had decided to place their trade and payments relationship with Brazil on a convertible basis, i.e., they decided not to renew the bilateral payments arrangements. Following discussions in Rio de Janeiro, this line appeared acceptable to the Brazilians, but recently they had received a letter throwing doubt on the understanding. They wished to have Fund advice on this matter.

I told them that both in principle and practice it would be wise to adhere to their decision to place the trade on a convertible currency basis. Japan had virtually eliminated bilateralism and it would be a pity if a new discriminatory payments agreement were signed with Brazil. The Brazilians, in turn, knew the Fund's attitude on this matter and a reference to their slowness in getting rid of bilateral arrangements was included in the recent Article XIV consultations report on Brazil. The Japanese had read the report in Tokyo and appeared to realize Brazil's financial predicament and that new swing arrangements would probably result in further credit to Brazil. They mentioned that further talks would be held in July when their Prime Minister would be visiting Brazil. The outcome of these discussions could not be predicted. I urged them to adhere to their present policies and said that if further discussions were held with Brazil, we would reiterate the line we had consistently taken in the past, that Brazil should not rely on bilateralism to help it out of balance of payments difficulties.

cc: Mr. H. C. Murphy
Mr. W. L. Hebbard
✓ Mr. G. A. Costanzo

INFORMATION COPY

1 - Mr. Colangelo
2 - Mrs. Becker

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

Call
To: Superintendencia da Moeda e do Credito

Rio de Janeiro, Brazil

No. 5

1. Federal Reserve Bank of New York, New York advises credit \$20,250,000 value June 2, 1959 to Fund's No. 1 Account by order of Banco do Brazil.
2. You are authorized to debit Fund's No. 1 Account cruzeiros 374,625,000 value June 2. Please cable execution.

Code and cipher

Test No.

INTERFUND

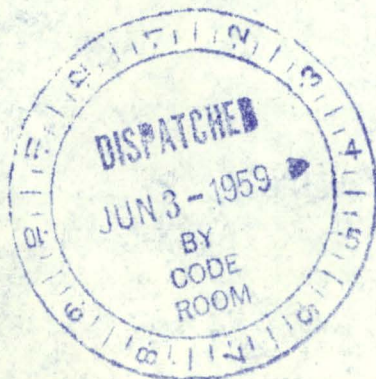
Drafted By DLechliter/amt
June 3, 1959
 Department Office of the
Treasurer
 Date June 3, 1959

AUTHORIZATION

[Signature]
Signature

Second Signature When Required

CC: Mg. Dir.
 Dep. Mg. Dir.
 Mr. Paranagua
 TRE
 WHD
 LEG
 RES
 ERD
 SEC



DO NOT TYPE BELOW THIS LINE

FOR CODE ROOM

Time Received 3:35 PM
 Time Dispatched 4:17 PM
 Number of Words 33
 Log 28260
 Route ALL AMERICA
 Operator AT

June 4, 1959

Dear Mr. Fonseca:

I wish to acknowledge receipt of your letter DE/DIVIN/
Cta. 118/59 of May 27, enclosing summary tables of the data
received by weekly cable in accordance with the agreement between
the International Monetary Fund and the Brazilian Government.

Sincerely yours,

15/

G. A. Costanzo
Acting Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe, Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

SECRET

INCOMING MESSAGE

SECRET

W/1
INTERNATIONAL MONETARY FUND
WASHINGTON, 25, D.C.

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK

33444

FILING TIME: 4:26 PM June 2, 1959

VIA: WESTERN UNION

Number: 133

HAVE CREDITED YOUR NO. 1 ACCOUNT \$20,250,000 BY ORDER OF BANCO
DO BRASIL, S.A., RIO DE JANEIRO

FEDERAL RESERVE BANK OF NEW YORK

Orig: TRE
cc: Mr. Paranagua
WHD
SEC

Test number checks:

Approved:

Received in Code Room: 5:30 PM June 2, 1959

SECRET

INCOMING MESSAGE

SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERFUND, WASHINGTONDC

FROM: BANCO DO BRASIL, S.A., RIO DE JANEIRO

33400

FILING TIME: 559P May 29, 1959

VIA: AC&R

Number : _____

ARE CABLING TODAY FEDERAL RESERVE BANK OF NEW YORK, NEW YORK TO PAY YOU
JUNE 2ND \$20,250,000 DUE UNDER OUR STAND-BY ARRANGEMENT JUNE 2, 1958

BANCO DO BRASIL, S.A.

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

Approved:

Received in Code Room : 10:00 A May 30, 1959

May 28, 1959

Dear Herculano:

I wish to acknowledge receipt of your letters DE/DIVIN/Cta. 110/59 of May 13 and DE/DIVIN/Cta. 112/59 of May 15, enclosing summary tables of the data received by weekly cable 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, Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

SECRET

INCOMING MESSAGE

SECRET

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERNATIONAL MONETARY FUND

FROM: FEDERAL RESERVE BANK OF NEW YORK, NEW YORK

33363

FILING TIME: 4:18 PM May 27, 1959

VIA: WESTERN UNION

Number: 122

HAVE EARMARKED FOR YOUR ACCOUNT 10,844.259 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: 5:25 PM May 27, 1959

W/11
MAY 26 1959

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 eighth series of consultations has just started, and there is enclosed a memorandum on the position with regard to the 1958 consultations and to the procedure for the 1959 consultations.

The Executive Board decided to maintain unchanged the existing procedure.

Very truly yours,

S
Per Jacobsson
Managing Director

Enclosure

Dr. Jose Garrido Torres
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
LEG
RES
SEC

DEC

33335

Orig: ERD
cc: Mg. Dir.
Dep. Mg. Dir.
Mr. Lieftinck
Mr. van der Valk
Mr. Paranagua
Mr. Watanabe
Euro. Dept.
WHD
Asian Dept.
LEG
UN Rep.
REC
SEC
Mr. Hebbard
Mr. Anderson
Mr. de Looper
Mr. Gerstein
Miss Hodel

RC2 YWC414 SDZ225

GENEVE 83 25 0020 =

LT

INTERFUND WASHINGTON/DC =

DECISION ON RELATIONS WITH YUGOSLAVIA AS ANNEXED TO L 986
ADOPTED TODAY WITH AMENDMENTS TO SECTION FOUR INCLUDING
DELETION REQUIREMENT CONCERNING PERCENTAGE OF TOTAL
TRADE STOP CONTRACTING PARTIES ALSO ADOPTED REPORT ON TARIFF
NEGOTIATIONS WITH BRAZIL IN TNB 27 AND AGREED THAT REVIEW
OF SITUATION ENVISAGED IN

2/33

PARAGRAPH THREE 1956 BRAZIL WAIVER WILL TAKE PLACE AT
FIFTEENTH SESSION STOP CONTRACTING PARTIES ALSO
CONSIDERED APPLICATION ARTICLE 35 JAPAN WITH LITTLE
PROGRESS REPORTED AND ITEM RETAINED ON AGENDA FOR FIFTEENTH
SESSION

ANDERSON



May 21, 1959

Dear Mr. Fonseca:

I wish to acknowledge receipt of your letter DE/DIVIN/
Cta. 102/59 of May 6, 1959, enclosing summary tables of the
data received by weekly cable in accordance with the agree-
ment between the International Monetary Fund and the Brazilian
Government.

Sincerely yours,

(Signed) G. A. Costanzo

G. A. Costanzo
Acting Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe, Departamento Económico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

INTERNATIONAL MONETARY FUND

May 15, 1959

Mr. Jacobsson:

Attached is a statistical
table and chart on coffee prices
as you requested.

G. A. Costanzo

File

Green Coffee Spot Prices in New York

(In cents per pound)

	Brazilian Santos 4	U.S. Wholesale Price Index 2/	Real Prices 3/
1929	22.1	61.9	35.8
1930	13.2	56.1	23.4
1931	8.7	47.4	18.4
1932	10.7	42.1	25.4
1933	9.3	42.8	21.7
1934	11.2	48.7	23.0
1935	8.9	52.0	17.1
1936	9.5	52.5	18.1
1937	11.1	56.1	19.8
1938	7.8	51.1	15.3
1939	7.5	50.1	15.0
1940	7.2	51.1	14.1
1941	11.4	56.8	20.0
1942 <i>1/</i>	13.4	64.2	20.9
1943 <i>1/</i>	13.4	67.0	20.0
1944 <i>1/</i>	13.4	67.6	19.8
1945 <i>1/</i>	13.6	68.8	19.8
1946 <i>1/</i>	13.7	78.7	23.8
1947	26.4	96.4	26.4
1948	26.8	104.4	25.6
1949	31.8	99.2	32.1
1950	50.9	103.1	49.4
1951	54.3	114.8	47.4
1952	54.1	111.6	48.5
1953	58.5	110.1	53.2
1954	78.3	110.3	71.0
1955	57.0	110.7	51.5
1956	58.5	114.3	51.0
1957			
1	60.6	116.9	51.8
2	59.0	117.2	50.3
3	54.8	118.2	46.4
4	54.9	118.1	46.5
1958			
1	54.8	119.2	46.0
2	51.2	119.3	42.9
3	46.0	119.1	38.6
4	43.6	119.1	36.6

	Brazilian Santos ⁴	U.S. Wholesale Price Index ^{2/}	Real Prices ^{3/}
1959			
January	41.5	119.5	54.8
February	41.0	119.5	54.3
March	37.7	119.6	51.6

Source: U.S. Department of Commerce, Survey of Current Business; Business Statistics, 1957.

- ^{1/} O.P.A. ceiling prices.
- ^{2/} BLS wholesale price index, 1947-49 = 100.
- ^{3/} Actual prices deflated by wholesale price index.

Aide-MemoireI. Aims

1. Brazil is currently undergoing an economic crisis with serious social, political and economic consequences. Prices have continued to rise, and the balance of payments has been in a chronic widening deficit. The internal price inflation is destroying confidence in the cruzeiro and discouraging savings and investments, while the balance of payments deficit threatens industrial unemployment and the abandonment of economic development projects due to the inability of the country to finance the import from abroad of the required industrial raw materials and capital goods. The avoidance of economic retrogression in the immediate future and the economic development of the country in the longer-run depend on the Government's ability to correct the basic forces responsible for this situation. The origins of this situation are to be found in the excessive spending by both the Government and the private sector financed by the Bank of Brazil and in the artificialities of the exchange system which discourage exports and encourage imports.

2. The broad outline of a program designed to eliminate the causes of the present economic crisis in Brazil and establish the basis for a sound and enduring process of economic development is submitted below. The aims of this program are as follows:

(a) To achieve a balance immediately between the available real resources of the country, including foreign loans, and the expenditures of the public and private sectors of the Brazilian economy. Inflationary financing by the Bank of Brazil covered by the issue of paper currency will thereby be avoided and the price inflation brought to a quick end.

(b) By ending the inflation, to restore confidence in the currency both home and abroad and contribute to social and political stability, thereby stimulating domestic savings and the inflow of foreign capital to provide non-inflationary financing for the economic development of Brazil.

(c) To establish a realistic exchange system free of artificialities to promote the growth and diversification of exports and discourage the excessive uneconomic consumption of imported commodities.

(d) By establishing a realistic exchange system, to achieve balance of payments equilibrium at progressively higher levels of trade, thereby enabling the country to: (1) finance the import of the raw materials and capital goods requirements of a growing economy, (2) service its foreign debt, and (3) increase its creditworthiness for long-term development loans.

II. Program

1. Exchange system

a. In order to ensure that realistic rates rule for all receipts and payments, the repeatedly declared objective of Brazil of unifying the exchange market should be achieved immediately. All transactions, except for the exchange proceeds from coffee exports, should be transferred to an exchange market free of all restrictions on trade and payments, and for a transitional period the exchange rates in this market should be allowed to fluctuate. Bilateral agreement currencies would also be placed in the market with the rates free to find their own level.

b. The exchange proceeds from coffee exports would continue to be surrendered to the Bank of Brazil at a fixed rate as at present. This would give rise to exchange profits which would be earmarked exclusively for the financing of I.B.C. purchases of surplus coffee and the covering of Bank of Brazil cruzeiro losses on exchange transactions in the transition from the old to the new exchange system.

c. In the transition from the old to the new exchange system, the Bank of Brazil will incur substantial cruzeiro losses from existing commitments to deliver exchange at an exchange rate less than that prevailing in the new free market. This will create a serious inflationary problem and measures must be taken to provide non-inflationary financing for these losses. Possible sources of such non-inflationary cover would include current receipts in the "agios account" and the local currency counterpart of new foreign loans net of repayment of foreign indebtedness by the Bank of Brazil.

d. The existing balance of the "agio account" as of the date of the exchange reform should be blocked as a reserve fund to cover present and potential exchange losses of the Bank of Brazil. All receipts in the "agios account" from current exchange profits, repayment of loans, or any other source would be earmarked to cover exchange losses of the Bank of Brazil referred to in the preceding paragraph.

e. The Brazilian Government may wish to reduce the tax rate on petroleum in order to offset in part the incidence on the cost of living of the depreciation in the import rate for petroleum.

f. Associated with this reform of the exchange system should be a determined attack on bilateralism. The Brazilian Government should undertake to abolish within a very short time period bilateral trade and payments agreements with Fund members and should discuss with other coffee-producing countries the possibility of eliminating their agreements with Soviet bloc countries.

2. Budget

The Government (including the autonomous agencies) should undertake to eliminate its over-all cash deficit in 1959, including all operations whether at present within or outside the regular budget. For this purpose, the local currency proceeds of foreign loans in excess of the amounts needed by the Bank of Brazil to repay foreign debts in 1959 and to cover net exchange system losses (see paragraph 1 c) would be considered a government receipt. In 1960 the over-all government budget should be in balance without reliance on foreign loans. To achieve these objectives, the Government would need to take measures along the following lines:

(a) Government receipts and expenditures at present outside the budget would need to be incorporated in the budget. Revenues from the petroleum tax, in particular, would be incorporated in the regular budget and activities previously financed from this tax specifically provided for in the budget.

(b) Railroad rates will need to be increased by at least 100 per cent to eliminate railroad operating deficits presently being financed by government grants-in-aid.

(c) The 1959 budget economy program already adopted by the Government will need to be fully implemented.

(d) Investment expenditures will need to be curtailed to the extent necessary to achieve budgetary equilibrium.

(e) New taxes will be imposed in 1960 to raise additional revenue to an amount equivalent to 10 per cent of present receipts.

3. Credit program

The Government should ensure through direct ceilings on the Bank of Brazil that the domestic assets of the monetary authorities do not rise by more than 5 per cent in 1959. On this basis, the following ceilings would need to be established:

	Actual End of 1958 (In billions of cruzeiros)	Ceiling for 1959
(a) Credit to Federal Government ^{1/}	126.0	126.0
(b) Credit to state and municipal governments and autarchies	18.1	18.1
(c) Loans and rediscounts to commercial banks	22.3	22.3
(d) Loans to the private sector ^{2/}		
(1) General Credit Dept.	73.8	81.0
(2) Agricultural and Industrial Credit Dept.	42.2	49.0

^{1/} Bank of Brazil credit already extended for the 1959 budget would be amortized on a specified schedule in the last half of the calendar year.

^{2/} The permitted expansion should be phased out on a monthly basis.

The Managing Director

May 14, 1959

Irving S. Friedman, J. Gold and G. A. Costanzo

Brazil--Aide-Memoire

1. Attached is an aide-memoire which might be handed to the Brazilians as a general indication of the essential elements of a stabilization program.

2. We have included, as you requested, an alternative to the "marketing board" arrangement. However, we are proposing a fixed rate for coffee instead of a mixing arrangement. The staff preference for the former is based on experience in many countries where mixing arrangements have led to frequent ad hoc changes in exchange rates without prior Fund consultation.

Aide-Memoire

Brazil is currently undergoing a serious economic crisis. Prices have continued to rise while money supply has expanded steadily. The balance of payments has been in chronic deficit and this deficit has been widening. Reserves have fallen to low levels and heavy short-term liabilities have been incurred. The origins of the price inflation are to be found in the monetary expansion resulting primarily from budgetary deficits and excessive private credit. More recently, the depreciation of the preferential import rates has also been a factor, but only a minor factor, in accounting for the price increase. To some extent the balance of payments difficulties are a result of the declining price for coffee, but much more important are the continuation of preferential import rates, the domestic inflation, and the mounting debt service requirements. Some steps in the right direction have been taken, but they are partial and insufficient in themselves. The achievement of Brazilian stability and the establishment of a sound basis for economic growth require a far-reaching and comprehensive program of economic reform. The broad outlines of such a program are submitted below.

1. Exchange system

a. In order to ensure that realistic rates rule for all receipts and payments, the repeatedly declared objective of Brazil of unifying the exchange market should be achieved immediately. All transactions should be transferred to an exchange market free of all restrictions on trade and payments, and for a transitional period the exchange rates in this market should be allowed to fluctuate. Bilateral agreement currencies would also be placed in the market with the rates free to find their own level.

b. Under the exchange system described in the previous paragraph, coffee exports would receive the prevailing free exchange market rate. However, in order not to disturb the world market price for coffee, the I.B.C. would be given a monopoly on coffee exports. Exports would continue to be handled by the private trade for account of the I.B.C. All exchange proceeds would accrue directly to the I.B.C., which would surrender them to the Bank of Brazil at the prevailing rate in the free exchange market. The I.B.C. would utilize these cruzeiro proceeds as follows: (a) to pay the exporter a pre-determined price in cruzeiros per unit of coffee exported for account of the I.B.C.; (b) to finance the stockpiling of surplus coffee; and (c) any residual amount would be used to amortize the I.B.C.'s indebtedness to the Bank of Brazil for previous financing from the "agio account". The cruzeiro prices established for coffee under (a) and (b) above should be so determined as to permit repayment of the I.B.C.'s loan from the "agio account" within a short period.

c. An alternative to the "marketing board" type of arrangement described in the previous paragraph would be a continuation of the present arrangement of surrender of the proceeds from coffee exports to the Bank of Brazil at a fixed rate. This would give rise to exchange profits which would be earmarked exclusively for the financing of I.B.C. purchases of surplus coffee and the covering of Bank of Brazil cruzeiro losses on exchange transactions in the transition from the old to the new exchange system.

d. In the transition from the old to the new exchange system, the Bank of Brazil will incur substantial cruzeiro losses from existing commitments to deliver exchange at an exchange rate less than that prevailing in the new free market. This will create a serious inflationary problem and measures must be taken to provide non-inflationary financing for these losses. Possible sources of such non-inflationary cover would include current receipts in the "agios account" under the exchange treatment alternatives for coffee described in paragraphs b and c above and the local currency counterpart of new foreign loans net of repayment of foreign indebtedness by the Bank of Brazil.

e. The existing balance of the "agio account" as of the date of the exchange reform should be blocked as a reserve fund to cover present and potential exchange losses of the Bank of Brazil. All receipts in the "agio account" from the repayment of I.B.C. and other loans or from current exchange profits would be earmarked to cover exchange losses of the Bank of Brazil referred to in the preceding paragraph.

f. The Brazilian Government may wish to reduce the tax rate on petroleum in order to offset in part the incidence on the cost of living of the depreciation in the import rate for petroleum.

g. Associated with this reform of the exchange system should be a determined attack on bilateralism. The Brazilian Government should undertake to abolish within a very short time period bilateral trade and payments agreements with Fund members and should discuss with other coffee-producing countries the possibility of eliminating their agreements with Soviet bloc countries.

2. Budget

The Government (including the autonomous agencies) should undertake to eliminate its over-all cash deficit in 1959, including all operations whether at present within or outside the regular budget. For this purpose, the local currency proceeds of foreign loans in excess of the amounts needed by the Bank of Brazil to repay foreign debts in 1959 and to cover net exchange system losses (see paragraph 1 b) would be considered a government receipt. In 1960 the over-all government budget should be in balance without reliance on foreign loans. To achieve these objectives, the Government would need to take measures along the following lines:

(a) Government receipts and expenditures at present outside the budget would need to be incorporated in the budget. Revenues from the petroleum tax, in particular, would be incorporated in the regular budget and activities previously financed from this tax specifically provided for in the budget.

(b) Railroad rates will need to be increased by at least 100 per cent to eliminate railroad operating deficits presently being financed by government grants-in-aid.

The service of Brazil's external debt is already a tremendous burden. The Government should recognize this by ending completely the registration of new suppliers' credits leading to any addition to the outstanding total. Moreover, the Bank of Brazil should not borrow any additional amounts except for any arranged under the stabilization plan. The Bank of Brazil also should discontinue the practice of "swap" operations.

4. External debt

	Actual and Ceiling of 1958	(in billions of cruzeiros) for 1959
(a) Credit to Federal Government	126.0	126.0
(b) Credit to state and municipal governments and municipalities	18.1	18.1
(c) Loans and rediscounts to commercial banks	22.3	22.3
(d) Loans to the private sector	73.8	81.0
(1) General Credit Dept.		
(2) Agricultural and Industrial Credit Dept.	42.2	49.0

Bank of Brazil credit already extended for the 1959 budget would be amortized on a specified schedule in the last half of the calendar year. The permitted expansion should be phased out on a monthly basis.

The Government should ensure through direct ceilings on the bank of Brazil that the domestic assets of the monetary authorities do not rise by more than 5 per cent in 1959. On this basis, the following ceilings would need to be established:

3. Credit program

- (e) New taxes will be imposed in 1960 to raise additional revenues to an amount equivalent to 10 per cent of present receipts.
- (d) Investment expenditures will need to be curtailed to the extent necessary to achieve budgetary equilibrium.
- (c) The 1959 budget economy program already adopted by the Government will need to be fully implemented.

5. Wages and prices

On the introduction of the exchange reform, a number of prices will rise. This will lead to wage demands. The Government may wish to anticipate this by decreeing a general wage increase to compensate for price changes--an increase of 10 per cent might be appropriate. This should be followed by instructions for a complete wage freeze for one year to give stabilization a chance to show results before new negotiations begin.

6. Longer-term policies

To consolidate stabilization, it is important that the Government create appropriate institutions. The Government should undertake to obtain Congressional legislation establishing a Central Bank prior to the end of 1959. This legislation should include the power for the Central Bank to increase reserve requirements substantially beyond present levels.

7.

- - - - -

This aide-memoire gives a broad outline of a program designed to achieve internal economic stability and eventually restore balance of payments equilibrium. Detailed discussions with the competent Brazilian authorities would be required to develop a detailed program.

May 13, 1959

Dear Mr. Fonseca:

I wish to acknowledge receipt of your letter DE/DIVIN/
Cta. 100/59 of April 29, 1959 enclosing summary tables of the
data received by weekly cable in accordance with the agreement
between the International Monetary Fund and the Brazilian
Government.

Sincerely yours,

(Signed) G. A. Costanzo

G.A. Costanzo
Acting Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe, Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

W/P

The Managing Director

May 11, 1959

Irving S. Friedman, J. Gold and G.A. Costanzo

Brazil: Staff Views Concerning Stabilization Program

Attached is a memorandum giving the staff views on the essential basis of a stabilization program for Brazil.

Brazil: Staff Views Concerning Stabilization Program

1. Brazil is currently undergoing a serious economic crisis. Prices have continued to rise while money supply has expanded steadily. The balance of payments has been in chronic deficit and this deficit has been widening. Reserves have fallen to low levels and heavy short-term liabilities have been incurred. The origins of the price inflation are to be found in the monetary expansion resulting primarily from budgetary deficits and excessive private credit. More recently the depreciation of the preferential import rates has also been a factor, but only a minor factor, in accounting for the price increase. To some extent the balance of payments difficulties are a result of the declining price for coffee, but much more important are the continuation of preferential import rates, the domestic inflation, and the amounting debt service requirements. Some steps in the right direction have been taken, but they are partial and insufficient in themselves. It is quite conceivable that with a sufficient amount of foreign assistance Brazil could continue, at least for the time being, without drastic monetary and exchange reforms. The underlying problems would, however, still remain, and both the domestic and external positions could be expected to continue to deteriorate further.

The means by which Brazilian stability can be achieved and a sound basis for economic growth established has been frequently discussed. It has been widely recognized, both in unofficial and governmental circles, that the present situation of constant deterioration should not be allowed to continue and that reforms along the lines outlined below are necessary. Such reforms will have to be far-reaching and comprehensive and they will have to be taken in such form as to give assurance that they will be implemented with resolution. Otherwise it will be difficult to create confidence in the cruzeiro internally and externally.

The program outlined below recognizes certain limitations with respect to what can be done and is based on Brazilian experience. Constitutional limitations with respect to export taxes, the special problem of coffee, the past experience with administering quantitative controls, the desirability of avoiding commercial arrears, the need to finance the cruzeiro losses resulting from an exchange reform, and other special aspects have been taken into consideration. The aim is to achieve domestic stability and a realistic exchange system on an enduring basis. Details of implementation have not been spelled out. These would require further discussion with the Brazilian authorities. It is essential first, to agree with the Brazilians that the present trends in Brazil should be brought to a halt and a new outlook achieved, and second, to agree on the basic measures to accomplish these ends.

2. Exchange system. In order to ensure that realistic rates rule for all receipts and payments, the repeatedly declared objective of Brazil of unifying the exchange market should be achieved immediately. All transactions should be transferred to an exchange market free of restrictions on trade and payments, and for a transitional period the exchange rates in this market should be allowed to fluctuate. The opening rate in this market is not expected to be less than Cr\$200 per U.S. dollar. Bilateral agreement currencies would also be placed in the market with the rates free to find their own level.

The exchange reform would have the following results: (a) the establishment of a realistic rate in the free market will contribute to solving the persistent payments deficit; (b) it would end the subsidization through the exchange system of certain imports, principally newsprint, petroleum and wheat, which involves heavy concealed costs; (c) it would end the taxation on those major exports which hold out the greatest promise of ultimately strengthening Brazil's balance of payments; (d) the virtual end of exchange and trade controls, including surrender and prescription requirements and import and exchange licensing; (e) it would permit a more rational approach to the problem of raising revenues from the foreign trade sector (see below).

Associated with this reform of the exchange system should be a determined attack on bilateralism. The Brazilian Government should undertake to abolish within a very short time period bilateral trade and payments agreements with Western European countries and should discuss with other coffee-producing countries the possibility of eliminating their agreements with Soviet bloc countries. On the import side, there should be no prohibited list. The recently revised tariff (with goods valued at the free market rate) plus some new exchange surcharges (see below) should be adequate to restrict imports and secure additional revenues for the Government.

3. Coffee. The guiding principle for the treatment of coffee export proceeds should be that coffee provides in full the financing needed for any market support arrangement for that commodity. Several methods might be used to achieve this result. The staff prefers a solution on the following lines -- coffee exports by decree are compulsorily channeled through the Coffee Institute. The Institute is empowered to retain from the proceeds whatever share it requires to finance its coffee support program. However, if there are substantial reasons for Brazil to prefer the use of a differential exchange rate for coffee, the staff believes this would be acceptable provided the exchange profits arising are adequate to provide all the financing required for coffee.

4. Losses from existing exchange commitments. Under the present exchange system, short-term exchange liabilities which equal half a billion dollars at fixed rates of exchange have been incurred in order to maintain solvency as long as possible. Thus there will be serious cruzeiro costs involved in establishing a normal exchange system. These costs arise from two main sources--first, existing Bank of Brazil commitments to deliver exchange against cruzeiros at fixed rates substantially less than the likely free market rate and second, advance sales of exchange as part of the auction system under which the cruzeiros have been received, but the exchange not yet transferred. Since the Bank of Brazil will under the proposed reform be obtaining such exchange at a free market rate near Cr\$200 per dollar, credit expansion will be required to finance the difference unless something is done. To the maximum extent possible commitments of the first type must be renegotiated or made subject to countervailing taxes. In particular, all such contracts with government agencies should be abrogated. If after such review a cruzeiro loss is still in prospect, provision should be made in the exchange system to cover it. For this purpose it may be necessary

to have a uniform exchange surcharge. These surcharges would terminate when revenue is accumulated to cover the losses on outstanding exchange commitments. In addition, to meet the problem arising from prepayment for exchange, a system of advance deposits for imports may be required. The system should be designed to apply to all imports at present subject to prepayment arrangements and should be uniform for all imports irrespective of currency used.

5. Fiscal. The Government must undertake to balance its budget (including those of the autonomous agencies) including all expenditures (other than for coffee support) currently made out of exchange profits. Included in receipts would be the local currency proceeds of foreign loans in excess of the amounts needed to pay for amortization of existing Bank of Brazil commitments. Because of the impact of the exchange rate change and the small amount of net foreign financing available, this will require a substantial reduction in expenditures. In particular, it will be essential to improve the operating finances of the railroads by an increase in rates of at least 100 per cent. Development expenditures will have to be substantially curtailed.

A special fiscal problem arises with petroleum. The earmarked tax on petroleum, with the change in the preferential rate, will rise sharply, but it will cause petroleum prices to reach very high levels. To moderate the impact of this rise in prices it may be necessary to reduce tax rates to levels designed to maintain the present level of receipts.

6. Bank credit. The Government should ensure through direct ceilings on the Bank of Brazil that the domestic assets of the monetary authorities do not rise by more than 5 per cent in a full year. The precise implication of this limit on credit to the private sector by the Bank of Brazil will depend on three things: (a) the adequacy of the exchange surcharges mentioned above to meet exchange system losses; (b) whether additional reserve requirements can be imposed on commercial banks; and (c) whether the Bank of Brazil can recoup some of the advances made to commercial banks. On present information it would seem desirable that the expansion of credit by the Bank of Brazil to the private sector be limited to 5 per cent with the remaining margin kept in reserve to cover other factors such as a possible slippage in budget performance, increases in bilateral account credit balances, etc.

7. External debt. The service of Brazil's external debt is already a tremendous burden. The Government should recognize this by ending completely the registration of new suppliers' credits leading to any addition to the outstanding total. Moreover, the Bank of Brazil should not borrow any additional amounts except for any sum arranged under the stabilization plan. In addition, there may be a need for the Brazilian Government to work out with its creditors some refinancing arrangements.

8. Wages and prices. On the introduction of the exchange reform, a number of prices will rise. This will lead to wage demands. The Government may wish to anticipate this by decreeing a general wage increase to compensate for price changes--an increase of 10 per cent might be appropriate. This

should be followed by instructions for a complete wage freeze for one year to give stabilization a chance to show results before new negotiations begin.

9. Longer term policies. To consolidate stabilization it is important that the Government create appropriate institutions. Legislation to establish a central bank should be actively supported by the Government. This legislation should include the power for the central bank to increase reserve requirements substantially beyond present levels.

10. Conclusion. The program outlined above will involve a reversal of many of Brazil's current policies. This is essential, however, if Brazil is to overcome its present crisis and establish a firm basis for future progress. The extent of the program is only a reflection of how serious the situation is at present.

INTERNATIONAL MONETARY FUND

May 11, 1959

Mr. Jacobsson:

The attached memorandum on recent financial developments in Brazil is for your information.

G. A. Costanzo

Mr. C. D. Finch

May 11, 1959

G. Escobar

Brazil--Recent Developments

The average agio for U.S. dollars for the general category decreased throughout March and April, reaching a low of Cr\$198.1 per U.S. dollar in the week ended April 25. The latest information shows a small increase in the agio to Cr\$201.8 per dollar in the week ended May 2, 1.9 per cent above the preceding week. Although the most recent quotations represent a very large rise in comparison with the same period last year, they are considerably lower than the peak agio of Cr\$289.6 per dollar attained in the first week of March. The decline in the agio in the latter part of March and April can be attributed to an increase of 10 per cent in the supply of foreign exchange on the auction market and a reduction of demand of about the same amount through the transfer of freight and insurance payments to the free market.

The free rate has appreciated in the first four months of 1959, and was quoted at Cr\$130 at the beginning of May, compared to Cr\$139 at the end of December 1958. This appreciation can be attributed to the arrangements permitting the proceeds of some exports to be negotiated in this market, while imports are settled in the official market. In October 1958 about \$50 million of export proceeds was transferred to this market without any change on the demand side. The change in the exchange system in April transferred a further estimated \$50 million of convertible export earnings into this market, while only about \$30 million of payments for freight and insurance were introduced on the demand side. The changes since the beginning of March in the amount auctioned and in the scope of the free market, increase the deficit in convertible currencies on the official market by about \$75 million in a full year.

In the first four months of 1959 the currency issue has continued to increase at about the same rate as in 1958. By May 2 currency issue was 3 per cent above the year-end level, a quite large increase for this seasonally stable period.

The Government cash deficit has been a little greater than in 1958. In the middle of April 1959, the cash deficit reached Cr\$10.7 billion, compared with Cr\$9.6 billion in mid-April 1958. By May 2, 1959 the cash deficit was Cr\$13.8 billion, Cr\$1.8 billion above the target for the full year.

Brazil--Exchange Market
 (In cruzeiros per U.S. dollar)

	Agio per US\$ <u>1</u> / (Monthly average)	Free Market Rate (End of period)
1957: December	66.8	90.5
1958: March	121.6	106.8
April	142.2	120.8
December	192.8	138.5
1959: January	220.5	143.6
February	262.8	139.8
March	278.8	139.5
April 4	268.0	133 <u>2</u> / <u>2</u>
11	247.6	133 <u>2</u> / <u>2</u>
18	240.7	130 <u>2</u> / <u>2</u>
25	198.1	130 <u>2</u> / <u>2</u>
May 2	201.8	130 <u>2</u> / <u>2</u>

1/ For Rio de Janeiro and Sao Paulo; average of general and special categories.

2/ New York banks' selling prices for cable transfers on Friday of each week.

Brazil--Currency Issue and Government Borrowing

End of Period	Currency Issue	Government Borrowing ^{1/}
1957: December	96.6	39.4
1958: March	96.6	7.2
April	99.1	n.a.
December	119.8	25.6
1959: January	116.8	n.a.
February	116.8	3.8
March	121.0	9.1
Week ended:		
April 4	121.0	10.4
11	121.0	10.8
18	121.2	10.7
25	121.0	12.3
May 2	123.2	13.8

^{1/} Figures for March 1958, and for 1959 consist of Treasury borrowing from the Bank of Brazil plus net issue of Treasury bills less deposits of official entities at Bank of Brazil. These figures are not exactly comparable with the data for December 1957 and 1958 which show the actual government deficit for those years.

lie

May 8, 1959

Messrs. Irving S. Friedman, Jorge Del Canto
and Joseph Gold
C. David Finch and W. John R. Woodley *W.*

UP

Attached is a draft of a memorandum for the
Managing Director on the Brazilian Stabilization
Program.

DRAFT"

Subject: Brazil: Staff Views Concerning Stabilization Program

1. Brazil is currently approaching a very serious economic crisis. A chronic payments deficit is widening due to declining coffee export proceeds, increasing imported raw material needs for new industries, and mounting debt service requirements. At the same time normal sources of financing have been nearly exhausted and reserves have fallen to low levels. While some new sources of finance may be tapped they would only postpone the crisis for a few months. Thus, the situation calls for far-reaching comprehensive reforms.

2. The Fund staff is not in a position without further detailed discussions to recommend the precise form this program might take. This memorandum sets forth the broad nature of the measures called for, but is necessarily vague about the details of implementation. In general, the measures must eliminate the dangerous payments gap by depreciating exchange rates to more realistic levels and by ending the excessive internal creation of credit. The measures taken must be clear and resolute so that confidence in the future of the cruzeiro can be reestablished internally and externally.

3. Exchange system. In order to ensure that realistic rates rule for all sections of trade, the repeatedly declared objective of Brazil to unify the exchange market should be achieved immediately. All transactions should be transferred to the free market, which for a period should be left free to fluctuate. The opening rate in this market is not expected to be less than Cr\$200 per U.S. dollar. Bilateral agreement currencies would also be placed in the market with the rates free to find

their own level. There should be no prohibited list, but the system may be subject to some complexity discussed in Sections 4 and 5 below.

4. Coffee. The guiding principle for the treatment of coffee export proceeds should be that coffee provides in full the financing needed for any market support arrangement. Several methods might be used to achieve this result. The staff prefers a solution outside the exchange system on the following lines--coffee exports by decree are compulsorily channeled through I.B.C. The I.B.C. is empowered to retain from the proceeds whatever share it requires to finance its coffee support program. However, if there are substantial reasons for Brazil to prefer the use of a differential exchange rate for coffee the staff believes this would be acceptable provided the differential is adequate to provide all the financing required for coffee.

5. Exchange System Operation Losses. Due to the special arrangements made under the present exchange system to maintain solvency as long as possible, there are very serious costs involved in passing to a normal exchange system. These costs arise from two main sources--first, commitments to deliver exchange against deliveries of cruzeiros at fixed rates already substantially less than the ruling free market rate and second, advance sales of exchange under which the cruzeiros have been received, but the exchange not yet transferred. To the maximum extent possible commitments of the first type must be renegotiated or made subject to countervailing taxes. In particular, all such contracts with government agencies should be abrogated. If after such review there remains a clear probability of loss, and this seems highly probable, provision should be made in the exchange

system to cover it. For this purpose it may be necessary to have exchange surcharges of up to 50 per cent of present general category imports and up to 100 per cent for special category imports. These surcharges would terminate with the elimination of the losses. In addition, to cover the problem arising from prepayment for exchange a simple system of advance deposits for imports may be required. The system should be designed to apply to all imports at present subject to prepayment arrangements and should be uniform as to provision for all such imports irrespective of currency used.

5. Fiscal

The Government must undertake to balance its budget (including those of the autonomous agencies) including all expenditures (other than for coffee support) currently made out of exchange profits. Included in receipts would be the proceeds of foreign loans (exclusive of IMF drawing) in excess of the amounts needed to pay for amortization of existing Bank of Brazil commitments. Due to the impact of the exchange rate change and the small amount of net foreign financing available, this will require substantial reduction in expenditures. In particular, it will be essential to improve the operating finances of the railroads by an increase in rates probably of the order of 100 per cent. Development expenditures will have to be reviewed possibly eliminating half of the projects currently under way.

6. Bank credit

The Government should ensure through direct ceilings on the Bank of Brazil that the domestic assets of the monetary authorities do not rise by more than 5 per cent in a full year. The precise implication of this rule on credit to the private sector by the Bank of Brazil will depend on three things: (a) the certainty of the control of exchange system losses ;

(b) whether additional reserve requirements can be imposed on commercial banks; and (c) whether the Bank of Brazil can recoup some of the advances made to commercial banks. On present information it would seem desirable that the expansion of credit by the Bank of Brazil to the private sector be limited to 5 per cent with the remaining margin kept in reserve to cover other factors, such as exchange system losses, bilateral account balance increases, etc.

7. External debt

Realistically Brazil's external debt has passed beyond the capacity of the country to service. The Government should recognize this by ending completely the registration of new suppliers' credits and borrowing by the Bank of Brazil except under the stabilization plan. In addition, there may be a need for the creditors to work out some refinancing or stretch out in payments terms.

8. Wages and prices

On the implementation of the wage reform a number of prices will rise. This will give rise to wage demands. The Government may wish to anticipate this by decreeing a general wage increase to compensate for the increases --an increase of 10 per cent might be appropriate. This should be followed by instructions for a complete wage freeze for one year to give stabilization a chance to show results before new negotiations begin.

9. Longer term policies

To consolidate stabilization it is important that the Government create appropriate institutions. Legislation to establish a central bank should be actively supported by the Government. This legislation should include the power for the central bank to increase reserve requirements substantially beyond present levels.

10. Performance guarantees

In view of the problems associated with implementation of the internal program, problems which have repeatedly overturned previous programs, there is likely to be some skepticism in foreign circles about performance. To ensure adequate confidence performance guarantees should be given with receipts of foreign assistance received by installments subject to performance under these guarantees.

W
11
May 7, 1959

Dear Herculano:

I wish to acknowledge receipt of your letter DE/DIVIN/Cta. 96/59 of April 24, 1959 enclosing summary tables of the data received by weekly cable 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, Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

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. 4

Charges due pursuant to Article V Section 8(c)
for period ended April 30, 1959 amount to 10,847.661 troy
ounces of fine gold; advice airmailed today. These charges
are payable within 30 days from date of cable.

Code

Test No

INTERFUND

Drafted By DLLehliter/al
Office of the
Department Treasurer
Date May 1/59

AUTHORIZATION

[Signature]
Signature

Second Signature When Required

FOR CODE ROOM

Time Received 2:55 PM
Time Dispatched 3:10 PM
Number of Words 13
Log 27981
Route WI
Operator MW



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

DO NOT TYPE BELOW THIS LINE

INTERNATIONAL MONETARY FUND

6/11
4/30/59

Mr. Costanzo:

Attached the text of the two recent Instructions of SUMOC. Would you please see if there is anything new we should report to Mr. Southard on the questions he raised a few days ago concerning freight? Thank you.

J. Del Canto

JDC

Attachment

*This is info. we
already had. y
JDC*

Jorge Del Canto

Source: Boletim Cambial No. 929, April 24, 1959
p. 11

SUPERINTENDENCY OF MONEY AND CREDIT

INSTRUCTION NO. 180

The Superintendency of Money and Credit, in accordance with the decision of the Council taken at today's meeting, in conformity with Article 3(h) and Article 6 of Decree-Law No. 7,293 of February 2, 1945, in consideration of Article 100 of Decree No. 42,820 of December 16, 1957 and Article 3(I) of Law No. 1,807 of January 7, 1953, and also considering:

the necessity of assuring the Brazilian products referred to in this Instruction of a competitive position on the international market in consideration of the new international economic conditions on the markets concerned;

RESOLVES:

(1) To include sugar and cotton, raw or ginned, among the products the export proceeds of which are to be negotiated on the free market under the terms of Instruction No. 167 of October 4, 1958 concerning other products.

(2) To classify cocoa butter in Category 3 of Instruction No. 174 of January 10, 1959.

Note: The Foreign Trade Department of the Bank of Brazil will be responsible for licensing cotton exports in such a way as to prevent the method adopted for cotton in this Instruction from having undesirable effects on supplies for the domestic market.

Source: Boletim Cambial No. 929, April 24, 1959
p. 21

SUPERINTENDENCY OF MONEY AND CREDIT

INSTRUCTION NO. 181

The Superintendency of Money and Credit, in accordance with the decision of the Council taken at today's meeting, in conformity with Article 3(h) and Article 6 of Decree-Law No. 7,293 of February 2, 1945, and considering:

the necessity of reducing import costs as much as possible to the benefit of the general level of prices;

the advisability of relieving the official exchange budget through the elimination of expenditures subject to settlement in national currency;

the fact that the exchange position does not allow, for imports benefiting from the special exchange system, the extension of the exchange subsidy to payment for services in connection with such imports which can be settled in national currency;

Resolves that it be announced that:

I. All Brazilian imports shall be covered on the official exchange market only for the value of the merchandise in question loaded at the foreign port of shipment (f.o.b. value).

II. Consequently, ocean freight and marine insurance shall be settled in cruzeiros, transaction being permitted on the free-rate exchange market in convertible currency, or, in the case of merchandise imported from bilateral areas, in the agreement currency concerned.

III. The principle shall be maintained that merchandise imported with the exchange subsidy, including that enjoying exemption from the auction system, shall be transported obligatorily on ships of Brazilian registry, ships chartered or rented to Brazilian enterprises being included for this purpose.

IV. The principle reaffirmed in Item III shall be applied in all but the following cases:

- (a) In the case of imports financed by foreign official institutions, when it becomes necessary, on a reciprocal basis, to meet the requirements of the international legislation of the countries in question
- (b) When it has been proved impossible to ship all or part of the merchandise on a ship of Brazilian registry

V. Imports made with the exchange subsidy shall also be subject to the following rules, in cases in which the rate allowed is lower than that on the free exchange market:

- (a) When the merchandise reaches Brazil, the importer shall pay the equivalent in cruzeiros for freight, calculated at the same rate as is applicable to the merchandise.
- (b) The Exchange Department of the Bank of Brazil shall enter in a memorandum ^{account} conta gráfica the equivalent value of the freight in foreign currency, for payment at the rate prevailing on the free exchange market on the date of authorization by the Banking Inspection and Control Division of payment in national currency.
- (c) The value of the marine insurance premium shall be paid direct to the underwriter in accordance with the specific regulations.

VI. Any contracts in existence that are not in accordance with the present instructions shall be reviewed and amended in such a way as to adjust them immediately to the system now instituted.

VII. The banks authorized to deal on the free-rate market may arrange forward sales of exchange to cover import freight, as soon as it has been proved that there exists an exchange certificate for the f.o.b. value of the goods to be imported, part of Instruction No. 61 of this Superintendency of June 29, 1953 thus being rescinded.

Instruction No. 181, by transferring to the free market payment of freight and services on merchandise subject to the ^{auction} system, will make it possible to reduce the cost of merchandise in the general category and to economize on foreign

exchange at the official exchange auctions, which will no longer have to provide exchange for freight and other services.

✓
April 29, 1959

Dear Herculano:

I wish to acknowledge receipt of your letter of March 19, DE/DIVIN/Cta. 56/59, with summary tables of the data received by weekly cable 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, Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

The Managing Director

April 28, 1959

I.S. Friedman and G.A. Costanzo

Brazil; Status of Stabilization Policies
Now and In April 1958

The following memorandum describes the current status of stabilization policies compared with that of a year ago. This comparison is based primarily on a description of recorded economic developments and does not analyze plans or political factors. It is designed to indicate comparatively the magnitude of the problems faced in each major field and to record any developments which may facilitate further progress.

1. Exchange system

Table 1 records the main exchange rate movements in the last year. Clearly the Government has depreciated the rates applicable to most trade transactions very substantially in this period. Some of the depreciation has been required to offset internal inflation which has been of the order of 30 per cent, but in general the depreciation has gone beyond this. To this extent the relationship of external to internal prices has become more realistic. However, due to the increase in debt burden and to the weakened coffee market the projected payments deficit has been increased. The deficit in convertible currencies estimated in April 1958 as \$200 million for 1958, is estimated now at \$300 million for 1959. Consequently the required adjustment in average exchange rates to obtain long-run equilibrium remains substantially the same as a year ago.

Table 1. Brazil--Effective Exchange Rates

(In cruzeiros per U.S. dollar)

Import Rates	April 30, 1958	April 1959 ^{1/}	Export Rates	April 30 1958	April 1959 ^{1/}
Newsprint	(22 (27	43 80	Coffee	40	60
			Cocoa	43	70
Automobile parts for assembly	60 - 10 ⁴	60 - 10 ⁴	Cotton	43	130
Other preferential imports	53	100	Sugar	67	130
Specific auctions	55 ^{2/}	102	Textiles	103	130
General category auctions	155 ^{2/}	260	Other manufactures	67	130
Special category auctions	333 ^{2/}	365	Other products ^{3/}	55	100

^{1/} For most recent available date in April.

^{2/} Average for month.

^{3/} Some miscellaneous items received 67 in 1958 and a few of these items received 130 in 1959.

The continuance for a further year of a spread in exchange rates, wider on the average than in previous years, has added to the problem of adjustment that will occur with rate unification, and equally has increased the need for quick action.

2. Fiscal policy

In April 1958 fiscal reform was recognized as basic to stabilization. The imbalance was shown by net borrowing from the banking system of Cr\$8.2 billion from January 1 to April 12, 1958. The Government planned economies in expenditures to limit this deficit to Cr\$20 billion for the year. The final result for 1958 was a budgetary cash deficit of Cr\$26 billion. The net borrowing from the banking system in the period January 1-April 11, 1959 is Cr\$10.8 billion, up over 25 per cent on 1958 (see Table 2). The Government's plan is to limit the 1959 cash deficit to Cr\$12 billion again through economies in expenditures. These economies will be rather more difficult to achieve for expenditures include a growing share of intractable items, such as the railroad deficit. The deficit of the major railroad is estimated to grow from Cr\$9.4 billion in 1958 to Cr\$15 billion this year under the impact of high wage costs not offset by any fare changes.

Table 2. Brazil--Selected Credit Developments, 1958 and 1959

(In billions of cruzeiros)

	<u>Similar Period</u> ^{1/}	
	1958	1959
1. Credit to Government	8.2	10.8
Gross Deposits	15.2	31.6
Net	<u>7.0</u>	<u>20.8</u>
2. Credit to private sector		
a. Bank of Brazil	-1.2	-2.9
b. Commercial banks	5.5	6.5
c. Bank of Brazil, excluding coffee	-1.8	-1.6
3. Currency issue	1.0	1.2

^{1/} Items 1 and 3 are for the period January 1-April 11.
Items 2 (a) and 2 (b) are for the period January-February,
and item 2 (c) is for January.

3. Credit policy

a. Bank of Brazil to private sector. In recent years, overextension of credit by the Bank of Brazil to the private sector has been of major importance. Recognizing this, the Government planned in April 1958 to hold this expansion to 5 per cent in 1958 by the establishment of quantitative ceilings on the Bank of Brazil. The quantitative ceilings, however, were not enforced, and as a result the actual Bank of Brazil credit expansion to the private sector exceeded 26 per cent in 1958 compared with 22 per cent in 1957.

For 1959, the stabilization plan is less ambitious, conceding a growth of 17 per cent in Bank of Brazil credit to the private sector, also to be enforced by direct ceilings. To date the observed level of credit issuance to the private sector has been more restrictive than in 1958. In the first two months of 1959, such credit fell by Cr\$2.9 billion compared with a fall of Cr\$1.2 billion in 1958. However, it appears that much (perhaps all) of the difference arises from coffee. At this season, loans on privately held coffee are repaid as it is exported or sold to the Coffee Institute. Very large coffee financing at the end of 1958 has permitted the seasonal decline in 1959 to be unusually great. Data on coffee loans are available only for January. For that month credit to the private sector, excluding coffee crop loans, was less restrictive in 1959 than in 1958.

In connection with the credit extension of the Bank of Brazil to the private sector, one specific measure was taken in January 1959. This reduced the financing on wheat from 85 per cent to 65 per cent and from 120 days to 60 days. Wheat financing amounts to about Cr\$3 billion. An earlier change in policy applied to a larger sector of financing. In October 1958 the advance against discounted documents was reduced from 90 per cent to 80 per cent and the period reduced from 180 days to 120 days. The effectiveness of this measure is, however, dependent on the supply of documents which may be sufficiently flexible to maintain or increase aggregate credit given on them. To January 1959, the item does not show any over-all influence of this measure when compared with the movement in the previous year.

b. Commercial banks. Hope was given in 1958 that control of the commercial banks would be strengthened by the imposition of new reserve requirements. The measure proposed did not pass Congress and, while still proposed, its passage is not regarded currently as probable. The expansion of commercial bank credit to the private sector amounted to Cr\$6.5 billion in the first two months, up from Cr\$5.5 billion in the same period of 1958.

c. Coffee. Coffee policies have been another major field of vital importance to stabilization. In April 1958, the exchange treatment planned was of major importance, providing the financing for the coffee support program and some additional profits. In practice, the treatment for coffee was considerably more liberal. However, the Government did reduce in real terms the remuneration provided to the coffee grower. Expansion of acreage was virtually halted, although production continues to climb as new trees come into production. Thus,

given the general program of coffee support, the Government has made an important step to limiting this sector of deficit. Moreover, by achieving a lower real price it has lessened the cost of withholding a given proportion of the coffee crop. On the other hand, the maintenance of a relatively high external price of coffee has added to the problems of Brazil through its continued encouragement of competing exporters. With the already high stockpile and a further increase in production, the problems for 1959-60 will be great although less than they would have been without the Government's restrictive internal pricing in the first year. No detailed policy for coffee for 1959-60 has been made.

d. Other credit factors. No other change of importance appears to have occurred in other factors influencing internal credit control. The existence of substantial Bank of Brazil loans to commercial banks may increase the possible control, but as these loans are to a small group of banks it will be difficult to obtain any substantial contraction from that factor. The widened use of the exchange profits account for finance of road construction and other government activities has increased the problem of control of public sector finances.

4. Currency issue

The over-all indication that stabilization of internal credit will require a more vigorous effort than now contemplated is indicated by the currency issue figures. These are rough only, for they take no account of currency holdings by the Treasury, the Bank of Brazil, or the banks. However, the available data show that the normal seasonal decline after December was ended earlier in 1959 than in 1958 with currency issue rising by April 11 by Cr\$1.2 billion above the end of 1958 level compared with an increase of Cr\$1 billion in the same period of 1958.

W.H.

Mr. F. Southard

April 28, 1959

J. Del Canto

Brazil

With reference to your questions on the use of the free market for freight payments on imports in Brazil, Mr. Costanzo confirms our understanding that only those imports paid through the auctions will have to resort to the free market. However, we are still in doubt and have given a questionnaire to Mr. Paranagua for further clarification.

All the material we have available is: (a) a text of the resolution as dictated over the phone from Brazil to Mr. Paranagua, and (b) a cable from Paulo Pook Correa, Director of the Exchange Department of the Bank of Brazil, to Mr. Paranagua. Both documents are attached.

As soon as we have further information we expect to produce a supplementary paper, and will inform you accordingly.

Attachments

JDelCanto:arb

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Full Rate
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

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

No. 3

In accordance with Executive Board decision have instructed Federal Reserve Bank of New York to credit Banco do Brasil, Rio de Janeiro account with themselves for account government of Brazil, with \$46,875 value April 29 representing refund stand-by charge. Letter follows.

Code & Cipher

Test No.

INTERFUND

Drafted By DLLechliter/sl
Office of the
Department Treasurer

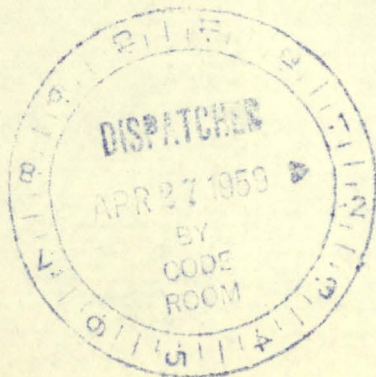
cc: Mr. Paranagua
WHD
TRE
SEC

Date April 27/59

AUTHORIZATION

[Signature]
Signature

Second Signature When Required



FOR CODE ROOM

Time Received 12:50 PM
Time Dispatched 1:58 PM
Number of Words 31
Log 27931
Route WU
Operator FW

DO NOT TYPE BELOW THIS LINE

RESOLUTION NO.

It is resolved that it be announced that:

1. All Brazilian imports shall be covered on the official exchange market only for the value of the merchandise in question loaded at the foreign port of shipment (f.o.b. value).

2. Consequently, ocean freight and marine insurance shall be settled in cruzeiros, transaction being permitted on the free-rate exchange market in convertible currency, or, in the case of merchandise imported from other areas, in the agreement currency concerned.

3. The principle shall be maintained that merchandise imported with the exchange subsidy, including that enjoying exemption from the auction system, shall be transported obligatorily on ships of Brazilian registry, ships chartered or rented to Brazilian enterprises being included for this purpose.

4. The principle reaffirmed in Item 3 shall be applied in all but the following cases:

(a) In the case of imports financed with foreign official institutions, when it becomes necessary, on a reciprocal basis, to meet the requirements of the internal legislation of the countries in question

(b) When it has been proved impossible to ship all or part of the merchandise on a ship of Brazilian registry

5. Imports made with the exchange subsidy shall also be subject to the following rules, in cases in which the rate allowed is lower than that on the free exchange market:

(a) When the merchandise reaches Brazil, the importer shall collect the equivalent in cruzeiros for freight, calculated at the same rate as is applicable to the merchandise

(b) The Exchange Department of the Bank of Brazil shall enter in a memorandum account [custo grafica] the equivalent value of the freight in foreign currency, for payment at the rate prevailing on the free exchange market on the date of authorization by the Banking & Inspection and Control Division of payment in national currency

(c) The value of the marine insurance premium shall be paid direct to the underwriter in accordance with the specific regulations.

6. Any contracts in existence that are not in accordance with the present Instructions shall be reviewed and amended in such a way as to adjust them immediately to the system now instituted.

7. The banks authorized to deal on the free-rate market may arrange sales of exchange for future delivery to cover import freight, as soon as it has been proved that there exists an exchange certificate for the f.o.b. value of the goods to be imported, thus rescinding part of Instruction No. _____ of this Superintendency.

(c) The value of the marine insurance premium shall be paid direct to the underwriter in accordance with the specific regulations.

6. Any contracts in existence that are not in accordance with the present Instructions shall be reviewed and amended in such a way as to adjust them immediately to the system now instituted.

7. The banks authorized to deal on the free-rate market may arrange sales of exchange for future delivery to cover import freight, as soon as it has been proved that there exists an exchange certificate for the f.o.b. value of the goods to be imported, thus rescinding part of Instruction No. _____ of this Superintendency.

24 de abril de 1959

Dear Herculano:

I wish to acknowledge receipt of your letters DE/DIVIN/Cta.51/59 of March 11, DE/DIVIN/Cta.73/59 of March 17, and DE/DIVIN/Cta.74/59 of March 24 enclosing summary tables of the data received by weekly cable in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

15/

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe, Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

24 de abril de 1959

Dear Herculano:

I wish to acknowledge receipt of your letters DE/DIVIN/
Cta. 77/59 of April 1, DE/DIVIN/Cta. 83/59 of April 8,
DE/DIVIN/Cta. 86/59 of April 13 and DE/DIVIN/Cta. 87/59 of
April 15 enclosing summary tables of the data received by
weekly cable in accordance with the agreement between the
International Monetary Fund and the Brazilian Government.

Sincerely yours,

15/

Jorge Del Canto
Director

Western Hemisphere Department

Mr. Herculano Borges da Fonseca
Chefe, Departamento Economico
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

INTERNATIONAL MONETARY FUND

April 20, 1959

Mr. Del Canto

Fulli

The Secretary



Office Memorandum

132041 15

TO : Mr. Per Jacobsson, Managing Director
FROM : O. Paranaguá, Executive Director *OP*
SUBJECT : Brazil - Exchange System.



In accordance with instructions just received, I wish to communicate to the Fund that in accordance with the program indicated in the letter of the Brazilian Finance Minister of July, 1958, and in order to establish more realistic exchange rates, the Brazilian Government after this consultation with the Fund is taking the following steps:

- (1) the proceeds of exports of cotton and sugar will be negotiated in the free market;
- (2) the rate for cocoa butter (manteiga de cacau) now exported at 70 cruzeiros per dollar will be changed to 100 cruzeiros per dollar; and
- (3) on the import side payments of freight and insurance will be liquidated at the free market rate.

This revision of exchange rates is made within the framework and in the spirit of the letter of the Brazilian Finance Minister for the purpose of a gradual simplification of the Brazilian exchange system.

Orig: WHD
Cc: Mg. Dir.
Dep. Mg. Dir.
ERD 3
LEG
RES
TRE 3
SEC

INTERNATIONAL MONETARY FUND
APR 21 11 57 AM 1959

RECEIVED
CORRESPONDENCE
SECTION

Minister of Finance
Lucas Lopez
Rio de Janeiro, Brazil

It is my understanding that payments for freight and insurance at present are effected at same exchange rate applicable to particular import. Accordingly, therefore, I would interpret proposed new regulation shifting freight and insurance to free market to mean that freight and insurance on all preferential imports, including newsprint, will be increased to free market rate and freight and insurance on general and special category imports will be reduced from effective exchange rate for general and special category imports to free market rate. Please confirm. Please provide also information whether freight and insurance on imports through bilateral agreements will also be effected in free market. Please estimate value on arrival basis of freight and insurance being shifted to free market.

PARANAGUA

7
SEC-17,243
Translated by Sophia Ramm
Reviewed by K. F. Magurn
131967
4/21/59

UNITED STATES OF BRAZIL
SUPERINTENDENCY OF MONEY AND CREDIT

Rio de Janeiro, April 9, 1959

DE/DIVIN/Cta. 85/59

Mr. Irving S. Friedman
Exchange Restrictions Department
International Monetary Fund
Washington 25, D.C.
U.S.A.

Dear Sir:

In reply to your letter of March 31, 1959, we wish to inform you that you are correct in suggesting that as of January 31, 1959, the exchange rates in force for "imports of newsprint by printers whose publications weigh 80 grams or less" and for "imports of newsprint by other printers" were Cr\$ 26.92 and Cr\$ 38.92 per dollar, respectively.

Very truly yours,

ECONOMIC DEPARTMENT
International Division

/s/

Herculano Borges da Fonseca
Department Chief

/s/

Henrique de Oliveira Duprat
Acting Division Chief

JAF/RM

Orig: ERD
Cc: Mr. Paranagua
WHD
Mr. Kalivoda

INTERNATIONAL MONETARY FUND

April 9, 1959

~~Mr. Costanzo~~ ✓
Mr. Woodley
Mr. Finch
Mr. Kirkwood

The attached might interest you.

ISF

Irving S. Friedman

Mr. Friedman

April 9, 1959

Roger V. Anderson

Brazil

As you requested, Mr. Gerstein and I discussed together the question of what might be the significance for the GATT if the Fund were to take action involving the disapproval of Brazil's exchange system. The attached note presents our agreed position with respect to this matter.

Attachment

Significance for the GATT of Fund Disapproval of Brazil's
Exchange System

On the basis of the information available to the staff, Fund disapproval of Brazil's exchange system would not necessarily have any significance with respect to Brazil's tariff system under the GATT. It is, however, conceivable that contracting parties might take the occasion of Fund disapproval to raise questions about their relations with Brazil under the GATT and even to claim impairment of benefits and ask for compensation under the nullification or impairment provisions of GATT Article XXIII.

In November 1956, the CONTRACTING PARTIES granted a waiver which allowed Brazil to introduce a new customs tariff without previously entering into negotiations with interested contracting parties. It was, however, provided that such negotiations should subsequently be undertaken and the results be incorporated in the schedules of duties bound under the GATT. At their session in November 1958, the CONTRACTING PARTIES approved a protocol to embody the results of the tariff negotiations. The protocol was to be opened for signature on December 31, 1958 and generally to enter into force when accepted by all contracting parties. Provision was made for the annexation to the protocol of the results of the negotiations which had not been completed by December 31, 1958. It is not known whether or not the protocol has entered into force or whether or not any tariff negotiations remain to be completed.

The Brazilian tariff reform was taken in conjunction with the change in the exchange system which involved the reduction in the number of auction categories from five to two and the elimination of minimum agios. While concern regarding the nature of the Brazilian exchange system was expressed privately by members of GATT delegations from time to time, it is to be noted that neither the text of the waiver granted in 1956 nor the report of the working party which submitted the waiver to the CONTRACTING PARTIES nor the text of the protocol adopted in 1958 make any reference to the status of the Brazilian exchange system under the Fund Agreement. The schedules of tariff concessions negotiated between Brazil and other contracting parties are not available to the staff (although it is believed that

they could be obtained). It appears unlikely, however, that these schedules would contain anything which relates their entry into force or continued application to the status of Brazil's exchange system under the Fund Agreement, since the Fund or its GATT missions were never approached by contracting parties during the tariff negotiations regarding matters of this nature. Accordingly it would appear that Fund disapproval of the Brazilian exchange system would have no necessary legal consequences upon the status of Brazilian tariffs under the GATT.

At the same time it must be recognized that Fund disapproval of the Brazilian exchange system might influence some contracting parties in raising the question of the possible impairment of benefits under the GATT as a result of Brazilian action in the exchange field. It has been noted that the tariff reform was undertaken in conjunction with changes in the Brazilian exchange system. That system continues broadly as anticipated at the time at which the waiver was agreed in 1956. Effective exchange rates have depreciated, although it may be argued that the significance of such depreciation is independent of Fund approval or disapproval of the system. Nevertheless, it is not possible to tell how contracting parties might react to disapproval. Conceivably they might feel that this involved some impairment of the benefits from tariff concessions; or they might choose to take action in other fields, e.g., with respect to subsidies, for which Brazil would no longer have the protection of the GATT provisions which protect a contracting party in the use of exchange arrangements in accordance with the Fund Agreement.

In this connection the following paragraph from the waiver granted to Brazil in November 1956 may be relevant:

" As soon as the negotiations referred to in paragraph 1 above have come to an end the Brazilian Government and other negotiating contracting parties shall submit to the CONTRACTING PARTIES a report on the results of the negotiations and on other action taken in pursuance of this Decision. The CONTRACTING PARTIES may make such recommendations to Brazil and to other contracting parties as they may deem appropriate. In particular, if any negotiating contracting party considers that the situation resulting from the negotiations and other action pursuant to this Decision does not constitute a mutually satisfactory adjustment, the CONTRACTING PARTIES shall authorize the suspension of the mutual obligations of that contracting party and of Brazil under the General Agreement."

The report referred to in the first sentence of the quotation is to be submitted to the CONTRACTING PARTIES at their session in May 1959.

It will be clear from the foregoing paragraphs that the observations contained therein are tentative in the absence of more complete information. A definitive statement would require an examination of the tariff schedules to determine if they contain any provisions regarding the Brazilian exchange system. It would also be helpful to discover if the protocol and the new schedules have entered into force and if any negotiations remain to be completed.

A complete view of the likely GATT significance of Fund disapproval of the Brazilian exchange system could only be obtained if it were possible to discover how contracting parties might react under the GATT to such Fund action.

The Managing Director
The Deputy Managing Director

March 27, 1959

G. A. Costanzo

Brazil--Outlook for Stabilization

1. The mission's task in Brazil was to complete the 1958 Article XIV Consultations. The discussions focused mostly on the Government's financial policies for 1959. Although the mission pointed out in general terms the apparent shortcomings in the 1959 financial program, there was no attempt to suggest or persuade the Brazilian Government to adopt any specific program. The mission had an opportunity to obtain first-hand impressions of the Government's financial policies and intentions in discussions with key Brazilian officials, among which were the President of the Republic, the Minister of Finance, the President of the Bank of Brazil, and a full session of the Council of the Superintendency of Money and Credit.
2. As of the week ending March 21, Brazil had fully utilized all lines of credit with the New York and European commercial banks and had available US\$28 million in dollar balances and small working balances in European currencies. In addition to these exchange balances, Brazil holds US\$120 million of unpledged gold, of which US\$55 million is on deposit in New York. Mr. Correa stated that to date all foreign exchange payments have been met promptly. There are no arrears or holding back on payments. Export contracts registered in March, he indicated, should enable Brazil to continue to make prompt payments through the end of April. Thereafter, he expects serious payments difficulties. The Minister of Finance indicated that if foreign financing were not forthcoming in the next 60 days, he would take further measures to cut imports, but the service of Brazil's foreign debt would receive first priority. The first measures to cut back import payments would be a further reduction in exchange allocations for the auction market and rationing of petroleum and petroleum products.
3. When the mission arrived in Brazil, the Government's efforts were completely absorbed in attempting to reassure the public that the Government would act to curb the increase in the cost of living. The Government had been surprised by an increase in the cost of living in February of almost 10 per cent. In the first two months of 1959, the cost of living increased by 14.5 per cent. The armed forces, it is reported, informed the President that the rise in the cost of living was creating serious social unrest. The Government's reaction has been to contain the inflation by administrative measures. The Government called upon the business community to reduce prices and promised to fight speculation. The Government also promised that there would be no further increases in 1959 in exchange rates, especially the preferential rate of Cr\$100, and in prices of goods and services of government-owned and government-regulated enterprises, e.g., railroad and electricity rates and petroleum. The President also called upon the National Petroleum Council to study means of rolling back the price of petroleum. I pointed out to the President that the inflation could

not be controlled by administrative measures alone and that primary emphasis should be placed on correcting the fiscal deficit and excessive credit expansion which were responsible for the increase in currency issue. The President replied that his approach was a political one, an unusually good agricultural crop would soon be entering the market and this alone was sufficient to assure a slowing down in the rate of inflation in the next few months. The public, however, would associate the decline in prices to the Government's anti-inflation campaign; thus, confidence would be restored and speculation ended.

4. The mission's impression, which was confirmed by the Minister of Finance just prior to our departure, was that although the Minister of Finance and his immediate group of advisers are doing their best to promote sound financial policies in Brazil, the Minister does not have the full support of the President and the Bank of Brazil. Just prior to our departure, the Minister stated that while he agreed fully with the Fund on the correct policies for Brazil, he did not have the support of his political party for such policies. The two major forces in this party are led by Alkmin and Lafer, both of whom are strongly opposed to any changes in the exchange system. Lafer, in fact, was pushing for a return to import licensing. Under these circumstances, he felt that an exchange reform was not politically feasible. The Minister stated that he would not seek financing from other sources if he failed to reach an understanding with the Fund. If he was unable to obtain assistance from the Fund on the basis of the program he was submitting, he would probably tender his resignation to give the President an opportunity to find another person who might have better success in obtaining financial assistance abroad. He indicated that he doubted the ability of the President to survive without financial assistance from abroad. However, outside of his own group, he did not see where leadership for sound financial policies could emerge.

5. As indicated prior to the mission's departure from Washington, the Government's financial program for 1959 involves the maintenance of the present exchange system and internal financial policies designed to reduce the monetary inflation in 1959 to 13 per cent. In spite of the sincere and good intentions of the Minister of Finance, our impressions are that the Government will not be able in fact to contain the fiscal deficit within the programmed Cr\$12 billion and Bank of Brazil credit to the private sector will exceed in 1959 the programmed increase of 17.5 per cent. Our estimate is that under the present political direction, at best Brazil could be expected to contain the rate of inflation to about 20 per cent per annum with US\$300 million foreign financial assistance. Without such financial assistance, the situation would soon get out of hand. Under the latter circumstances, the Government's survival would be at stake and it would have to give serious consideration to a complete change of policies.

INTERNATIONAL MONETARY FUND

Brazil - file

G. A. Costanzo

OUTLINE OF STATEMENT TO MAKE ORALLY BEFORE SUMOC

I. Brazil's Payments Problem

(a) Payments problem is not of recent origin and cannot be attributed solely to decline in coffee prices. Brazil's external payments problem goes back to the end of World War II. The payments problem was only temporarily alleviated in 1953 through a severely restrictive import policy and in 1955-56 through an exceptionally favorable coffee market combined with severe import restrictions. Brazil's payments deficit since the end of World War II can be estimated as follows:

	<u>(Millions of U.S. dollars)</u>
1. Use of exchange reserves	450
2. Outstanding compensatory financing of 1952	347
3. Eximbank compensatory financing, 1954	45
4. Eximbank compensatory financing, 1958	100
5. Net drawings on IMF	113
6. Swaps	116
7. Compensatory financing from private banks	
a. Use of lines of credits	
(1) U.S. banks	52
(2) European banks	11
b. 1958 loan from New York banks	<u>58</u>
Total compensatory financing, 1947-1958	1,292

(b) This situation of fundamental balance of payments disequilibrium has brought Brazil's foreign indebtedness to an excessive level beyond Brazil's debt service capacity. Brazil's present outstanding foreign debt in convertible currencies will require about \$300 million in 1959 for interest and amortization payments. This burden will rise to about \$400 million in 1960 and 1961. This means that roughly 35 per cent of Brazil's export earnings in convertible currencies in 1959 will go for debt service. If export earnings remain at the 1959 level in the next two years, debt service will absorb about 50 per cent of export earnings in 1960 and 1961.

(c) Brazil's external financial situation is even more serious in that further deficits are expected of around \$300 million in 1959 and \$250 million in 1960. Furthermore, under present exchange, monetary, and fiscal policies, there is no end in sight to a situation of chronic balance of payments disequilibrium. Doubts are beginning to grow as to Brazil's external solvency. Unless convincing measures are taken to restore balance of payments disequilibrium, there is a serious danger that the capital inflow of recent years may not only come to a standstill, but may be reversed.

II. Causes of Brazil's Chronic Balance of Payments Deficit of the Last 10 Years

The fundamental cause of Brazil's external payments problem has been the excessive credit expansion of the Bank of Brazil in the last 10 years. Bank of Brazil credit since World War II has expanded at a rate of 20 to 30 per cent per annum. At times, the credit expansion was to finance the deficits of the state governments and in more recent years the deficit of the Federal Government, but in the period as a whole, most of the credit expansion has been on behalf of the private sector. This credit expansion financed overspending by the Brazilian economy as a whole, resulting in the internal absorption of resources otherwise available for export, increased demand for imports, and internal price inflation. As the exchange system has not been sufficiently flexible, the internal price inflation has meant unrealistic exchange rates, penalizing exports and encouraging imports.

III. Essential Conditions for Restoration of Balance of Payments Equilibrium

(a) Reduction in rate of spending of the public and private sectors to a level compatible with available resources. This means fiscal and credit policies to limit the growth in money supply to a rate consistent with the rate of growth in Brazil's output of goods and services. In concrete terms, this means reducing the deficit of the Federal Government and credit operations of the Bank of Brazil's Carteira de Rediscontos, Crédito Geral, and Crédito Agricola e Industrial to amounts which can be financed by an issue of currency of no more than 5 per cent per annum.

(b) The exchange system will need to be completely overhauled to eliminate artificial rates, whether overly depreciated or appreciated. Realistic exchange rates would encourage the development of export production and would enable the export sector to compete on equal terms for investments. On the import side, the elimination of overvalued rates would help to reduce import demand.

IV. Brazilian Stabilization Plan

The Brazilian stabilization plan, if fully implemented, would with the counterpart of the planned \$300 million of external borrowing (Cr\$80 billion at an auction rate of Cr\$250 plus the official exchange rate), slow down the rate of inflation. The plan, however, is not sufficiently far reaching and would do nothing to correct the fundamental balance of payments disequilibrium. Thus, while the rate of internal inflation would be dampened, this limited objective would be attained by the heavy taxation of the export sectors of the economy and by further mortgaging of the future. The basic balance of disequilibrium of the last 10 years would continue with no end in sight.

(b) Brazil's external payments problem has reached such proportions that it cannot be corrected by internal measures alone. Internal measures alone could restore equilibrium only through a severe policy of monetary contraction with serious unemployment consequences. Accordingly, the most desirable way of coping with the balance of payments disequilibrium would appear to be a policy of exchange reform to equilibrate existing internal and external prices, accompanied by a policy of monetary containment to protect that equilibrium once established.

6/11
Mr. J. Del Canto

March 19, 1959

B. Brovedani

Brazil--Report for the Weeks Ended March 7 and 14, 1959

*Our files
on Brazil*

The average agio for U.S. dollars depreciated further to Cr\$289.6 per U.S. dollar in the first week of March, compared to Cr\$274.9 per dollar in the preceding week. A minor appreciation in the week ending March 14 brought the average agio back to Cr\$273.7 per dollar. Weekly sales of exchange certificates in Rio de Janeiro and Sao Paulo remained at \$2.6 million in the week ending March 7, and increased to \$2.9 million in the week ending March 14. The increase in offerings was the main reason for the appreciation of the auction rate.

The currency issue rose to Cr\$118.9 billion on March 7, and to Cr\$119.1 billion on March 14. On this date currency issue was only slightly less than the peak attained at the end of December 1958, and Cr\$2.3 billion greater than on January 31, when a low point for 1959 had been attained.

Government borrowing, as measured by the net position of the Treasury with the Bank of Brazil, and the net new issue of Treasury bills, has risen sharply to Cr\$11.2 billion on March 7, and to Cr\$15.0 billion on March 14.

Inflationary pressures early in 1959 have been stimulated by the increase in minimum wages effective January 1, and by the rise in costs stemming from the sharp depreciation of the cruzeiro in the auction market from Cr\$121.6 per dollar in March 1959, to Cr\$279.7 on March 14, 1959. No information is available on credit developments. Credit expansion must have been large enough to offset the pronounced contraction originating from the operation of the exchange system, characterized by a growing spread between the selling and buying rates.

Brazil—Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period	Currency Issue	Percentage Change	Government Borrowing ^{1/}
1957: December	96.6	5.5	39.1
1958: January	94.0	-2.7	2.6
February	94.6	0.6	6.7
March	96.6	2.1	8.7
April	99.1	2.6	12.0
May	101.6	2.5	14.2
June	103.4	1.8	18.1
July	103.4	—	19.9
August	104.2	0.6	20.3
September	109.4	5.0	20.4
October	111.6	2.0	22.7
November	115.6	3.6	26.6
December	119.8	3.6	30.3
Week ended:			
1959: January 3	119.8	—	5.3
10	118.5	-1.1	6.4
17	117.1	-1.2	5.4
24	117.1	—	8.2
31	116.8	-2.6	6.1
February 7	116.8	—	6.2
14	117.3	0.4	7.8
21	117.3	—	7.4
28	116.8	-0.4	7.2
March 7	118.9	1.8	11.2
14	119.1	0.2	15.0

^{1/} Figures for 1958 show the Government's cash deficit, as measured by the change in claims of the Bank of Brazil on the Treasury, plus the net issue of Treasury bills less the amount of bills outstanding on December 31, 1957. Borrowing as shown understated this deficit by Cr\$2 billion in 1957, and by Cr\$0.4 billion in 1958. Figures for 1959 are gross borrowings of the Treasury, and overstate the deficit by Cr\$3.3 billion in January, and Cr\$3.4 billion in February. The excess of Government borrowing over the cash deficit is composed of the change in Treasury cash, deposits in the Central Agency of the Bank of Brazil, and items in transit.

Brazil--Exchange Market

(In cruzeiros per U.S. dollar and in millions
of U.S. dollars)

		Agio per US\$ ^{1/} (monthly average)	Sales of Exchange at Auction ^{1/}		Free Market Rate (end of period)
			U.S. dollars	ACL dollars	
1957:	December	66.8	8.3		90.5
1958:	January	96.1	8.3	6.7	97.5
	February	113.0	6.3	5.0	99.5
	March	121.6	8.4	6.7	106.8
	April	142.2	8.4	6.6	120.8
	May	134.4	8.4	6.6	122.0
	June	134.3	6.4	8.3	132.8
	July	140.8	10.5	6.6	134.0
	August	154.8	8.4	6.6	159.5
	September	193.1	8.3	6.5	156.3
	October	189.3	6.7 ^{2/}	5.2 ^{2/}	140.8
	November	182.6	6.7	5.2	136.3
	December	192.8	6.6	3.9	138.5
Week ended:					
1959:	January				
		3	200.4	1.7	135 ^{4/}
		10	203.5	1.7	145 ^{4/}
		17	205.3	1.7	139 ^{4/}
		24	257.3	2.6 ^{5/}	141 ^{4/}
		31	235.8	2.6	139 ^{4/}
	February				
		7	245.2	2.6	139 ^{4/}
		14	5/	5/	137 ^{4/}
		21	268.2	2.6	135 ^{4/}
		28	274.9	2.6	133 ^{4/}
	March				
		7	289.6	2.6	135 ^{4/}
		14	279.7	2.9	--

- ^{1/} For Rio de Janeiro and Sao Paulo, only US and ACL dollars.
^{2/} Weekly sales were reduced by 20 per cent.
^{3/} Auctions of ACL dollars discontinued after December 16, 1958.
^{4/} New York Banks' selling prices for cable transfers on Friday of each week.
^{5/} No auction held.
^{6/} On June 21 auction sales of ACL and US dollars were combined, and the total was reduced 12.8 per cent below the weekly totals sold during December.

The Acting Managing Director

March 12, 1959

Working Party on Brazil

Brazil: Financial Policies for 1959

1. A series of meetings have been held during the week of March 1 with a Brazilian delegation, consisting of Mr. Paulo Correa, Director of the Foreign Exchange Department of the Bank of Brazil, and Mr. Casimiro Ribeiro, Advisor to the Minister of Finance of Brazil. The Brazilian delegation explained the external payments difficulties confronting the country and the financial policies which the Brazilian Government intends to pursue in 1959.

2. External payments situation

a. 1959 payments deficit. The Brazilian authorities estimate the external payments deficit of Brazil for 1959 in convertible currencies (U.S. dollars and currencies of the former ACL area) at US\$326 million.^{1/} Total official market exchange receipts in convertible currencies are budgeted at US\$963 million compared with US\$925 million in 1958 and payments at US\$1,189 million. The payments figure includes US\$300 million for debt service, interest and amortization. Payments for imports are budgeted at US\$860 million compared with US\$925 million in 1958. It is doubted whether payments for imports can be reduced much below the budgeted figure under the present exchange system. Exports through the free market in convertible currencies, however, are estimated at US\$50-70 million. The deficit of US\$326 million could be reduced to the extent that the Bank of Brazil is able to recover a portion of this exchange by intervening as a buyer in the free market. On the other hand, no provision has been made in the exchange budget for requirements of steel products amounting to US\$40 million, which are to be imported on three-year credit terms or from bilateral payments agreement partners.

b. External debt position. Brazil's external debt, including interest to maturity, in convertible currencies (U.S. dollars and currencies of former ACL area) increased from US\$1.7 billion at the end of 1957 to US\$2.2 billion at the end of 1958. The increase was almost entirely with the dollar area. The principal net increases in external debt during 1958 were the following:

^{1/} The Brazilians speak of a deficit of US\$306 million, which excludes the repayments obligations of US\$20 million to the Fund.

(In millions of US\$)

DF ^{1/}	38
Eximbank, balance of payments loans	54
Eximbank, long-term loans	158
IHRD	136
New York banks	<u>59</u>
	445

The servicing of the external debt in convertible currencies outstanding as of December 31, 1958 will absorb an exorbitant proportion of Brazil's exchange earnings for the next three to four years. As indicated above, the servicing of Brazil's debt service will require US\$300 million in 1959. The amount required for debt service will increase further to about US\$400 million in 1960, thereafter decreasing sharply. These figures, however, assume that the lines of credit with foreign commercial banks and the outstanding volume of swap operations can continue to be rolled over, and that no repayment need be made against the US\$200 million gold collateral loan with U. S. banks. Moreover, the decline in later years will occur only if there is no new borrowing. The servicing of US\$300 million borrowing to cover the 1959 deficit would almost certainly maintain the debt service over US\$400 million in 1961.

3. Financial program for 1959

Brazil's financial policies for 1959 can be briefly summarized as follows: (1) no further modifications in the exchange system during 1959; (2) an internal fiscal and credit program to reduce the monetary expansion in 1959 to 13 per cent; (3) new borrowing abroad to the amount of approximately US\$300 million to cover the estimated 1959 balance of payments deficit in convertible currencies as previously defined; and (4) the acceptance of new medium-term foreign suppliers' credits will be limited to the current rate of repayments with the additional limitation that all such credits must provide for a three year period of grace on repayment terms.^{2/}

a. Exchange system. In view of the substantial increase in the cost of living, particularly in the last six months, and further increases expected to arise from the recent increase of approximately 60 per cent in the minimum wage, the Government for social and political reasons does not consider any further modifications in the exchange system feasible during 1959. The Minister of Finance recently submitted to the Government an exchange reform plan which provided for the transfer of all exchange transactions to the existing free market for capital and invisibles, except for coffee exports and petroleum and wheat imports. All or the major portion of the exchange proceeds from coffee exports would continue to be surrendered to the Bank of Brazil at the present fixed rate of Cr\$60. Petroleum and wheat would continue to be imported at the present preferential rate of Cr\$100 until June 30, 1959.

^{1/} Excludes charges.

^{2/} Except for the import of component parts for the production of trucks and automobiles on credit terms of one to three years, such imports by the automobile industry in 1959 will amount to US\$111 million against repayment of similar credits to an amount of \$74 million.

Thereafter, the import rate for these items would be a fixed percentage of the free market. This percentage relationship to the free market would be adjusted on a quarterly basis, so that on January 1, 1960 the rate would be 100 per cent of the free market rate. Thus, there would be complete unification of the exchange system by January 1, 1960 with the exception of coffee. This plan has been rejected by the Government for the reasons indicated above.

b. Fiscal policy. The Government's fiscal policy objective for 1959 is to reduce the over-all government cash deficit to Cr\$12 billion. This compares with cash deficits of Cr\$39 billion in 1959 and Cr\$30 billion in 1958.

The 1959 budget approved by Congress plus the subsequent 30 per cent increase in the wages and salaries of government workers results in an estimated government cash deficit for 1959 of Cr\$47 billion--expenditures, Cr\$194 billion and revenues, Cr\$147 billion. To reduce the deficit to Cr\$12 billion, the Government has issued a decree signed by the President of the Republic and all Ministers which reduces authorized expenditures, ministry by ministry, by Cr\$35 billion. The reduction in authorizations can be restored solely by new decree and only if the proposed increase is offset by equivalent reductions elsewhere.

Revenues for 1959 are budgeted at Cr\$147 billion compared with actual receipts of Cr\$118 billion in 1958, an increase for 1959 of about 25 per cent. The increase of Cr\$29 billion in revenues in 1959 is expected from the following sources: (a) an increase of Cr\$15 billion (12.5 per cent) from the higher average price level in 1959 as compared with 1958; (b) Cr\$3 billion from tobacco taxes due to higher tax rates; and (c) Cr\$11 billion from a reform of the system of income and sales taxes approved by Congress in December 1958.

c. Credit policy. The credit policy for 1959 has been formulated on the basis of permitting a 13 per cent increase in money supply during 1959, 10 per cent to accommodate the increase in wages and salaries and import rates, and 3 per cent for the assumed growth in the economy.

Monthly ceilings have been established on Bank of Brazil credit operations directly with the private non-banking sector. The ceiling for the end of 1959 is 17.5 per cent higher than the level of such loans at the end of 1958. Monthly ceilings have also been established on Bank of Brazil rediscounts to commercial banks and loans to state and local governments and autonomous agencies of the Federal Government. The ceilings on the latter categories of loans permit no expansion for the year as a whole, but seasonal variations are permitted in the course of the year. This program would mean an increase in total Bank of Brazil credit of Cr\$29.3 billion in 1959, which is about 11 per cent of the total Bank of Brazil credit and 25 per cent of currency issue on December 31, 1958. The Cr\$29.3 billion increase in Bank of Brazil credit would be financed as follows: (a) increase in currency issue, Cr\$14.7 billion (12 per cent increase over end of 1958); (b) increase in monetary deposits with the Bank of Brazil, Cr\$9.8 billion; and (c) increase in time deposits, profits, and other resources of Cr\$4.8 billion. Profits deriving from the exchange system and counterpart of possible foreign loans have been excluded from the above calculations.

The Brazilian monetary authorities estimate that the above primary expansion of Cr\$14.7 billion, or 12 per cent, would result in an increase in commercial bank credit of Cr\$26 billion, or about 12.5 per cent. This increase would be distributed as follows: Cr\$23 billion to the private sector and Cr\$3 billion to the Government. The increase in commercial bank credit to the private sector in 1959 would be 11.5 per cent.

d. Coffee stockpiling and exchange system profits. Although the coffee policy for the crop year 1956-1960 has not yet been decided, it is the Government's present intention to maintain the exchange rate for coffee at Cr\$60 and to follow the same policy and prices with respect to government purchases of surplus coffee. On this basis and assuming a crop of 30 million bags and exports of 16 million bags in 1959-60, the cost of stockpiling the surplus coffee in calendar 1959 is estimated by the Brazilians at Cr\$20 billion. At the currently prevailing preferential import rate and export rate and an auction rate for general category imports of Cr\$200 for the U.S. dollar ^{1/} and assuming foreign financing of US\$300 million to cover the estimated external payments gap in 1959, they estimate that the exchange system would yield a net profit of about Cr\$90 billion. After allowing for the cost of coffee stockpiling in 1959 and transfers to certain official funds, the agios account would show a net increase of about Cr\$50 billion, more than sufficient to offset the budgetary deficit and planned expansion of Bank of Brazil credit. However, it would be Brazil's policy to relax credit policy to the extent necessary to attain the programmed 13 per cent increase in money supply.

4. Appraisal of Brazilian financial plan

a. The major weakness of the Brazilian plan is that it fails to deal with the country's fundamental balance of payments disequilibrium which continues to grow. 1959 will be the third consecutive year of serious balance of payments disequilibrium with no end in sight. Meanwhile, the financing of these deficits with medium-term external loans is creating an impossible schedule of foreign debt maturities over the next five years. The existing foreign exchange system continues to penalize exports. Export rates lag seriously behind the inflation. On the other hand, a large segment of imports continues to enjoy a preferential rate which provides a heavy subsidy in relation to a realistic rate of exchange. There is little hope of restoring equilibrium in Brazil's balance of payments without a far-reaching exchange reform. To offer reasonable hope the exchange reform must be at least as complete as that prepared by the Brazilian technicians.

b. The budgetary program for 1959 as described would represent substantial progress in reducing the budgetary deficit. If the 1959 budget is fully implemented and the cash deficit reduced to Cr\$12 billion as planned, budgetary equilibrium should be possible in 1960. It is doubted whether a lower deficit in 1959 can be realistically expected, particularly in view of the 30 per cent increase in government wages and salaries.

^{1/} The auction rate for the U.S. dollar is currently around Cr\$200.

c. The planned monetary and credit expansion is overly liberal and would mean continued price inflation. Specifically, the planned Bank of Brazil expansion of credit to the private sector of 17.5 per cent is too high. The effects to this expansion in the form of an increase in deposits at the Bank of Brazil are overestimated and based on monetary relationships prevailing under conditions of inflation. Finally, the planned monetary expansion of 13 per cent would not be consistent with the requirements of correcting a serious balance of payments gap. A 13 per cent expansion in money supply is excessive, particularly in view of Brazil's plans to borrow \$300 million abroad. At the prevailing auction rate for general category imports of Cr\$280, the local currency counterpart of these loans would represent Cr\$84 billion, or 70 per cent of the outstanding currency issue as of December 31, 1958.

d. The Brazilian plan fails to deal with the country's heavy debt burden over at least the next five years. Debt service in 1960 and 1962 will probably absorb more than 50 per cent of Brazil's convertible currency earnings. It is doubted that any exchange reform and internal stabilization program can bring so rapid results as to enable the country to service its debt over the period 1959-1961. A stretch out of Brazil's foreign debt obligations over the next five years appears to be an integral part of any program to provide a solution to Brazil's balance of payments problem over the next five years.

e. Finally, in view of the prevailing political attitudes which have caused substantial departures from previous plans some apprehension must be felt about the implementation of the budgetary and monetary program described.

cc: Mr. Friedman
Mr. Gold

GAC/umpg

INTERNATIONAL MONETARY FUND

Date *6/11* 3/11/59

- TO:
- (1) Mr. Del Canto Room.....
 - (2) Room.....
 - (3) Room.....

Brazil

Attached are draft minutes of the Sixth and Seventh Meetings. Minutes of the Fifth Meeting on coffee financing are being revised to include later statistics.

file: Brazil

FROM J. A. Kirkwood
Room.....

BRAZIL - Minutes of the Sixth Meeting
held in Office of Director, Western Hemisphere Department
11:00 A.M., Monday, March 9, 1959

Present:

Brazil

Mr. Paulo Correa, Director, Exchange
Department, Bank of Brazil

Mr. Casimiro Ribeiro, Advisor to the
Minister of Finance

Mr. Jorge Del Canto, Director, WHD
Mr. G. A. Costanzo, Deputy Director, WHD
Mr. David Finch, Chief, WHD
Mr. Bruno Brovedani, Asst. Chief, WHD
Mr. J. A. Kirkwood, Economist, ERD

The meeting had been arranged for an examination of the data left with the Fund staff by the Brazilian representatives on Brazil's exchange operations. In reply to various questions raised by members of the Fund team, Mr. Correa supplied the following information:

1. The Free Market

It is expected that export receipts in the free market should be at least \$46 million in convertible currencies. Currently the Bank of Brazil is pursuing a policy of quietly buying up export bills that are offered to it, and it proposes gradually to go into the free market to absorb funds. At present the Bank is purchasing in the free market at a rate of about \$1.5 million a month. As an indication of the size of this market, it was mentioned that during the last quarter of 1958--or more precisely, for part of the month of October through December--proceeds of export bills amounting to from \$7 million to \$9 million were sold in the free market. Commenting on an observation that during all of this time the free market rate had been fairly firm, even with a tendency to appreciate,

Mr. Correa said that the authorities would not, as a policy, wish the rate to become more appreciated. Further to the reference which had been made during the first meeting that the authorities had under consideration, for implementing in 1960, a plan to transfer freight and insurance costs associated with import payments from the official to the free market, it was mentioned that an arrangement along these lines may even be undertaken in the near future. This would depend on finding a satisfactory way to deal with freight charges for oil and wheat imports so as to ensure that the price of these commodities is not increased, at least during the period through June 30, 1959.

2. Automotive Industries' Plan (page 16)

It was noted that outstanding commitments under this plan amounted to \$323.6 million as of December 31, 1958. These commitments are in respect to the production of trucks. When the projects have been approved, the Government undertakes to provide the necessary foreign currencies to import those component parts which are not manufactured in Brazil; and the industry undertakes to manufacture trucks in Brazil at an agreed monthly rate. Although the automotive industries' plan has now been terminated, a further \$110.7 million will be authorized in 1959 for payments in respect of units already shipped, and \$88.4 million in 1960. The latter amount is to cover commitments for automobiles, and it will be due for repayment one year to eighteen months later. Currently imports under the automotive industries' plan receive the preferential rate (now 100 cruzeiros to the U.S. dollar), but this treatment will cease at June 30, 1959 from which date the general category rate will apply.

3. Suppliers' Credits

There was a net decrease of \$19.7 million in suppliers' credits during 1958--commercial loans rose by \$65.8 million; obligations under the automotive industries plan decreased by \$74.4 million; and obligations under the agricultural equipment plan declined by \$11.1 million. An amount of \$122.3 million (Table 4) has been registered as a new commitment in 1959--the Brazilian authorities will agree to allow equipment to be imported on credit up to \$122.3 million only insofar as the imports are covered by commercial credits which allow a three-year period of grace before repayments are commenced. No exchange rate commitment has been given on these commitments but the prevailing preferential rate will be extended. On certain occasions in the past the authorities have allowed isolated repayments to be made before the expiration of three years, but this has always been in association with a "swap" transaction.

4. Exchange Certificates (PVC's)

It was noted that the commitments for the PVC's and exchange contracts are heavier during the first semester of the year, as a result of a concentration of imports during the second semester of the year. The PVC's are being regularly issued by SUMOC but, due to shipping delays, etc., they are not as regularly retired. If there is good justification, the authorities extend the currency of the PVC, under certain circumstances, but many PVC's are also canceled. The agio can be returned to the importer only after the lapse of one year.

5. Table 4

a. Commitments Already Assumed

(1) Oil

To reduce the commitment for oil any lower than the \$83.9 million allowed for in 1959 would mean introducing rationing.

However, every effort is made to reduce the import cost involved,

economies have been made in the refining process, and the output has been increased from 45,000 to 60,000 barrels a day.

(2) PVC's

The total of \$81.7 million represents outstanding PVC's which will have to be liquidated in 1959.

(3) Exchange Contracts

The commitment for the year is \$222.6 million. These contracts are all irrevocable and represent credits that have already been opened. The contracts have been written by the Bank of Brazil and the commercial banks.

(4) Rubber

The commitment of \$4 million in 1959 represents rubber imported on credit from Malaya and Indonesia during 1958, for which the repayment is already committed in 1959. Import payments are now effected at the general category rate.

b. Commitments to be Assumed

(1) PETROBRAS

The figure of \$37.0 million in 1959 represents a commitment for payments for equipment, parts, and services for refining, extracting, and prospecting--last year the figure was higher. Part of the payment for this commitment will be sold by the Bank of Brazil at the free market rate.

(2) Railroads

The commitment of \$10.0 million is only to cover the replacement needs for existing equipment.

(3) Air Force

It is hoped that the scheduled commitment of \$10.8 million for 1958 can be further reduced to \$5 million; this is currently under investigation. The payments are for aircraft parts.

(4) Navy

Most of this figure of \$13.2 million is for payments in connection with the reconditioning in the Netherlands of Brazil's aircraft carrier; but some payments will also be made in the United States to meet the cost of armament equipment. Total costs of the aircraft carrier will be \$30 million.

(5) Commercial Airlines

The commitment of \$12.0 million is for replacement parts for the Brazilian airlines. Foreign exchange is being made available at the preferential rate up to June 30, 1959.

(6) Books and Magazines

The commitment of \$3.8 million is for specially authorized purchases by book shops--there are many complaints from the general public in Brazil that this figure is too low.

(7) Light and Power

The commitment of \$12.0 million is mostly/for use in gas production. The figure has been at this level for sometime. to purchase coal

(8) National Steel Industry

The commitment of \$10.0 million is for coal, mostly for coke production.

(9) Iron Ore

A commitment of \$1.0 million is for the purchase of replacement equipment, which is being effected at the auction rate.

(10) Rubber

The figure of \$16.0 million as a commitment to be assumed in 1959 is in addition to the \$4.0 million already provided in for/the exchange budget for the first semester of this year.

(11) Brazilian Treasury Delegation

The figure of \$18.0 million represents the difference between the receipts from consular fees and the cost of maintaining Brazil's delegations abroad. The amount is about the same as in 1958.

(12) Bankers' Interest

The commitment of \$4.2 million represents interest on short-term lines of credit.

Mr. Correa commented that Brazil at the moment has a surplus in all her bilateral payments accounts except that with Sweden. The Bank of Brazil is currently offering bilateral currencies at a discount of about 30 per cent.

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BRAZIL - Minutes of the Seventh Meeting
held in Office of Director, Western Hemisphere Department
10:30 A.M., Tuesday, March 10, 1959

Present:

<u>Brazil</u>	<u>Fund</u>
Mr. Paulo Correa, Director, Exchange Department, Bank of Brazil	Mr. Jorge Del Canto, Director, WHD Mr. G. A. Costanzo, Deputy Director, WHD Mr. David Finch, Chief, WHD
Mr. Casimiro Ribeiro, Advisor to the Minister of Finance	Mr. Bruno Brovedani, Asst. Chief, WHD Mr. J. A. Kirkwood, Economist, ERD

The following additional information was given by Mr. Correa in answer to queries by the Fund staff arising out of the written data which had already been supplied on Brazil's external position.

In regard to Table 5 ("Commitments in Convertible Currencies"), it was mentioned that the Brazilian authorities include interest in the statement of Brazil's foreign indebtedness. The Table indicates that \$52 million in lines of credit with U.S. banks will be due for payment during 1959. Brazil's outstanding lines of credit now amount to about \$97 million--about \$82 million by banks in Germany. The German lines of credit comprise the DM equivalent of \$7.5 million from the Bundesbank, and DM 10 million with each of three leading groups of German banks. At the end of February 1959, although Brazil had fully drawn the U.S. lines of credit, some repayments had been made; and about \$16 million in further availabilities could be utilized.

Table 5 also indicated commitments of \$80.1 million in 1959 for swaps in convertible currencies and \$10 million to repay a swap of U.S. dollars for German marks. It was noted that a rate of exchange of 58 cruzeiros per U.S. dollar is applied for swaps with terms of from six months through two years.

A rate of 92 cruzeiros per U.S. dollar is applied on terms of five years and more; while intermediate rates govern swaps for periods of over two but less than five years. In each case the same exchange rate applies to purchases and to sales. The interest on these swaps varies in accordance with the term, so that interest on a two-year swap at a rate of 58 cruzeiros is now at 4 per cent per annum, which must be paid by the firm in Brazil to the Bank of Brazil. The interest rate declines as the term increases so that a rate of 1 per cent per annum is levied on a five-year swap. However, the effective interest rate is at present more than double this, as the cruzeiro equivalent of the swap must be converted at the rate in the free market. In addition to the interest charges, the Brazilian firm must, of course, pay brokerage and stamp duty fees. It was noted that the amount of the swaps had been excluded from the debt statement as the principal would continue to be turned over each year.

Service on the government debt in 1959 will amount to about \$290 million of which interest will account for about \$90 million. This was based on data of Table 5 as follows:

Total commitments for 1959		\$836
Less:		
Imports	\$413.9	
Swaps	80.1	
Lines of credit	<u>52.0</u>	<u>546</u>
		<u>\$290</u>

It was noted that existing exchange commitments (including imports and services) as of December 31, 1958 (Table 7) amounted to \$714 million. Commitments assumed during 1959 (including \$306 million which Brazil hopes to obtain

by compensatory financing) total \$1,227.7 million--which is offset by \$1,189.2 million in disbursements to be effected in 1959. Commitments due after 1959 will therefore amount to \$752.9 million.

On commercial loans, it was noted (Table 8) that almost all of the rise of \$303 million was due to an increase in long-term debt during the period, including an Ex-Im Bank loan of \$147 million, \$10.7 million for port equipment, and \$136 million from the IBRD.

There was some discussion of Brazil's \$200 million gold loan (Table 9) for which there is a scheduled payment of \$9 million in 1959. Interest on this loan is based on the prime rate prevailing in New York, and within certain margins. The Brazilian representatives agreed that in examining Brazil's overall debt service position for future years, this item might realistically be omitted from the schedule. It was mentioned that the subject of selling, rather than pledging, the gold covered by this loan would be an important political matter as the authorities attached some importance to Brazil having a stock of gold. Current annual gold production in Brazil amounts, very approximately, to about \$6 million.

The Brazilian representatives also made available three additional tables (Tables 10-12) showing the medium and long term loans of Brazil (commercial loans).

Before the meeting adjourned there was some discussion of export prospects for Brazil's products. In regard to iron ore and manganese ore, the Brazilian representatives stated that the authorities were hoping for much better results in the future, particularly as the effects of the recession diminished in the U.S.A. As to manufactured products, no sudden improvement

is expected from exports. However, Brazilian manufacturers are starting to look more toward overseas (particularly European) markets and there is generally an export-consciousness growing in Brazil amongst manufacturers. No ambitious programs have been set up for export promotion, but a small committee is at present engaged in simplifying administrative procedures that could otherwise hinder a developing export trade.

12 de marzo de 1959

Dear Herculano:

I wish to acknowledge receipt of your letter of February 18, DE/DIVIN/Cta. 35/59, with summary tables of the data received by weekly cable 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, Departamento Economico,
Superintendencia da Moeda e de Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

March 11, 1959

Dear Herculano:

I wish to acknowledge receipt of your letter of February 25, DE/DIVIN/Cta. 41/59, with summary tables of the data received by weekly cable 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
Departamento Economico,
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

3/10/59

Dear Mr. Pegurier:

I wish to acknowledge receipt of your letter of February 4, DE/DIVIN/Cta. 29/59, with summary tables of the data received by weekly cable in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Guilherme Augusto Pegurier
Chefe do Departamento Intto.
Divisão de Assuntos Internacionais
Superintendencia da Moeda e do Credito
Avenida Rio Branco, 120 - 9 andar
Rio de Janeiro, Brazil.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

W/H

To: Dr. José Garrido Torres, Executive Director
SUMOC
Rio de Janeiro (Brazil)

Pursuant discussion with Corre~~ça~~, Fund mission will visit Brazil for period about ten days beginning March 16 for purpose completing 1958 Article XIV Consultations. Mission will consist of following: G.A. Costanzo, David Finch, J.A. Kirkwood, Edison Zayas, and secretary. Mission will arrive Rio March 16 via Braniff, Flight 971.

Cochran
Interfund

- cc: Mg. Dir.
- Dep. Mg. Dir.
- Mr. Paranagua
- ERD
- WHD
- LEG
- RES
- UN Rep.
- SEC



Cleared with
 Mr. E. Jones
 Mr. Del Canto

Typed By GACostanzo:eb
 Department W.H.

Date March 9, 1959

AUTHORIZATION
H. MERLE COCHRAN
 Signature

Second Signature When Required

FOR CODE ROOM
 Received 5:40 PM
 Dispatched 5:45 PM
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 Operator MW

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Office Memorandum

TO : Mr. G. A. Costanzo

DATE: March 6, 1959

FROM : B. Brovedani *WB*

SUBJECT : Tentative Appraisal of the Brazilian Monetary Budget for 1959

This appraisal of the Brazilian monetary budget is divided into two sections, one dealing with the general assumptions concerning the basic relationships of the major items in the budget, the other dealing with the general assumption that the "agio" accounts will be neutral in their monetary effect.

The exchange budget for 1959 assumes an expansion in money supply of 13 per cent; according to this target, money supply will rise from Cr\$356 billion in December 1958, to Cr\$403 billion in December 1959, with an increase of Cr\$46.5 billion. Currency issue is also expected to increase by roughly 13 per cent, consistently with the increase of money supply (cash preference ratios assumed stable). A calculation made on the basis of an assumed stability of basic inter-relationships of items leads to the determination of the expansion of credit of the Bank of Brazil to the private sector for 1959 (17.5 per cent), to the forecasts concerning changes in other assets and liabilities as shown in the following table.

Brazil—Changes in Selected Assets and Liabilities of the Central Monetary Authorities

(- = zero change)

	1958 (Actual)		1959 (Programmed)	
	Cruzeiro billions	Percentage Change	Cruzeiro billions	Percentage Change
<u>Main Items</u>				
<u>Assets:</u>				
Loan to Treasury	20.9	19.9	19	7.1
Loan to private sector	24.3	26.4	20.3	17.5
Rediscounts	9.1	68.9	—	—
Credit to States and municipalities	-0.7	-4.9	—	—
Loan to others	—	—	—	—
Official entities	-0.9	-5.2	—	—
Other assets	n.a.	—	3.3	n.a.
<u>Liabilities:</u>				
Demand deposits	2.3	13.6	5.1	26.6
Time deposits	1.7	85.0	1.0	27.0
Other short-term liabilities	n.a.	n.a.	2.0	n.a.
Own resources	7.1	32.8	5.0	17.4
Deposit of commercial banks	0.5	1.3	4.8	12.2
Net " <u>agio</u> " balance	10.7	12.3	—	—
Paper money in circulation	22.1	23.7	14.7	12.7

A review of the basic assumptions is in order. Table 2 lists the basic monetary ratios, which are assumed to remain stable in 1958 and 1959. These ratios are important because they are used in assessing the consistency of the target of the expansion of credit of the Bank of Brazil to the private sector with an increase of 12 per cent in money supply.

A mere inspection of the table shows that these ratios have varied considerably in the past. The ratio of currency out of banks to monetary deposits declined from 47.3 per cent in December 1955, to 37 per cent in December 1958. The average cash ratio of commercial banks declined from 26 per cent in December 1957, to 20.5 per cent in December 1958. It must also be observed that if a program of disinflation is adopted, this ratio can hardly be assumed as stable, since banks would tend to reduce their cash holdings. Periods of restriction may also determine shifts from time to demand deposits, which means that the ratio B4 can hardly be assumed stable.

Although it is difficult to assess the nature and the direction of the change in these ratios, it is hardly possible to assume them as fixed, except in normal periods with little inflation, or with little change in the general economic environment.

The expansion of loans of commercial banks is estimated at Cr\$25.8 billion or 11 per cent, which is deemed consistent on the basis of the assumptions reviewed above, with an increase of money supply of 13 per cent.

The agio accounts

The monetary budget assumes that the agio accounts, net of coffee stockpiling financing, are monetarily neutral. Some calculations provided to the staff indicate that a large contraction from these transactions is also possible, depending, mostly, on the level of the various exchange rates. In 1958 the agio accounts exercised a contractionary impact of about Cr\$10 billion.

Sales of exchange to importers, or for the purposes of debt repayment (excluding auctions) are estimated to provide Cr\$91.6 billion, or about Cr\$63 per dollar, since these payments are estimated at \$1,458 million. On the other hand, export bonuses are estimated to cost roughly Cr\$74.5 billion, or Cr\$42 for each coffee dollar, and Cr\$77 on the average for each dollar exported of other commodities (exports of \$611 million). Total exports are estimated at \$1,273 million, compared with about \$1,180 in 1958. These amounts are applied against the official purchases of coffee for stockpiling for Cr\$24.8 billion, road fund Cr\$9.9 billion, and miscellaneous Cr\$5 billion. Excluding the amounts to be derived from the auction market, payments exceed receipts by Cr\$22.6 billion.

In calculating the amounts derived from the auction market, an average auction rate of Cr\$170 per U.S. dollar was taken, and sales were assumed at \$450 million. On February 21 the agic amounted to Cr\$268 per U.S. dollar, about Cr\$100 higher than assumed in this table.

A practical way of examining these assumptions would set down the theorem that an average auction rate of Cr\$50 per dollar would make the exchange system monetarily neutral. On the basis of this, an average auction rate of Cr\$170 would give a deflationary impact of about Cr\$54 billion ($170 - 50 = 120$; $120 \times 450 = \text{Cr}\54 billion). If the average rate is (as on February 21, 1959) Cr\$268 per dollar, the same contractionary impact could be placed at more than Cr\$100 billion.

Another way of looking at the problem is to calculate, on the assumption of a neutral monetary impact, the degree of devaluation of export rates which could be absorbed. With an average auction rate of Cr\$170, the deflationary impact would be of Cr\$54.4 billion. If this is distributed to exporters, the average export bonus could be increased by Cr\$101 per dollar ($\frac{54.4}{1.273} \approx 74.5 = 101$)

Selected Monetary Ratios 1/

	B1	B2	B3	B4	B5	B6	B7
1955 Dec.	47.3	18.1	81.6	86.4	21.0	32.1	98.0
1956 June	44.7	15.3	83.8	86.7	19.2	36.6	89.0
Dec.	45.0	18.3	84.7	88.3	20.9	33.1	94.0
1957 June	42.7	17.3	84.6	87.4	18.7	29.3	39.0
Dec.	38.8	19.7	86.9	87.9	25.8	23.0	106.0
1958 June	36.5	17.4	81.6	87.8	20.1	29.3	92.0
Dec. *	37.0	18.0	81.5	87.7	20.5	30.0	95.0
1959 *	37.0	18.0	81.5	87.7	20.5	30.0	95.0

Source: The Brazilian stabilization plan.

* Estimated

1/ The ratios are as follows: B1 - Ratio of currency out of banks to monetary deposits. B2 - Ratio of monetary deposit liabilities of the Central Bank to those of commercial banks. B3 - Ratio of sight deposits liabilities of the Central Bank to its total deposit liabilities. B4 - Ratio of sight deposits liabilities of commercial banks to their total deposit liabilities. B5 - Commercial banks' reserve ratio. B6 - Ratio of total cash in vault to total reserves of commercial banks. B7 - Ratio of total loans of the Central Bank to total loans of commercial banks.

Mr. Del Canto

NOT cleared with
Brazilian representatives

CONFIDENTIAL

BRAZIL - Minutes of Meeting
held in Office of Director, Western Hemisphere Department
10:30 A.M., Tuesday, March 3, 1959

U.S. : Zvand

Present:

Brazil

Mr. Paulo Correa, Director, Exchange
Department, Bank of Brazil

Mr. Casimiro Ribeiro, Advisor to the
Minister of Finance

Mr. Jorge Del Canto, Director, WHD
Mr. G. A. Costanzo, Deputy Director, WHD
Mr. Bruno Brovedani, Asst. Chief, WHD
Mr. J. A. Kirkwood, Economist, ERD

Mr. O. Paranagua, Executive Director, also attended.

Mr. Del Canto, in extending a warm welcome to the Brazilian representatives, referred to Brazil's important position amongst the members of the Fund and mentioned that the staff have been following developments in Brazil very closely. Mr. Del Canto invited the representatives to comment on the current and prospective situation in Brazil.

Mr. Correa said he reciprocated the cordiality of Mr. Del Canto's greeting and stated that he knew from past experience that Brazil could anticipate receiving very sympathetic examination of its problems by the Fund staff. In regard to the present meeting, he said he would like to review the situation in Brazil under the two main headings of "Internal Monetary Policy" and "Exchange Policy". On the second point, Mr. Correa then made available to the meeting a written statement, together with supporting tables, in connection with Brazil's foreign exchange situation. The following is a brief summary of the main points which emerged from the material discussed at the meeting:

I. Official market exchange operations

At the end of 1957 the existing obligations in convertible currencies registered by the Brazilian authorities amounted to \$2,190.6 million, made up of \$1,737.6 million in obligations to the former dollar area and \$453 million to the former AGL area. During 1958 payments totaling \$1,220.1 million were made to both areas. All registered commitments existing at the end of 1957 and falling due in 1958 were liquidated; and, in addition, other obligations assumed in 1958 for prompt or short-term payment were settled during the same year.

In the nine months January through September, imports were significantly curtailed by \$124 million to a total of \$980 million, as compared with the same period in 1957. The 1958 official market balance of payments showed an

over-all cash deficit of \$315 million in respect to both convertible and ACL currencies--the dollar area deficit of \$270.5 million being covered by compensatory finance of \$100 million from Ex-Im Bank, \$54.8 million from the IMF, \$53 million from commercial banks, and by special short-term lines of credit. In 1958 new obligations were incurred for payment in 1959 and later years, as a result of which total registered obligations existing at the end of 1958 amounted to \$2.7 billion as compared to \$2.2 billion at the beginning of 1958.

II. Budget estimates for 1959

On the basis of receipts of \$883.2 million and expenditures of \$1,189.2 it is estimated that there will be a deficit of \$306.0 million for the year 1959. Exchange receipts from exports in U.S. dollars and currencies of the former ACL area are estimated at \$840.0 million compared with \$872 million for the previous year. Export earnings from coffee are based on an assumed export volume of 12.2 million bags to the dollar and ACL area and an average price of \$32 cents a pound. The expenditure estimates assume (a) no deferment of contractual obligations, (b) new commitments assumed in 1959 for payment in that year will be restricted to the lowest possible minimum, and (c) new obligations falling due after 1959 will also be reduced to the lowest possible level. Imports and services would be curtailed by \$40.9 million in 1959 over the relative figure for the previous year--further contraction is considered by the Brazilian authorities to be economically unwise.

III. Total indebtedness in convertible currencies

Brazil's total indebtedness in convertible currencies (i.e., U.S. dollars and the currencies of the former ACL area) amounted to \$2,190.6 million at the end of 1957 and \$2,663.5 million at the end of 1958. It is estimated that this latter figure will rise by a further \$48.5 million to \$2,712.0 million by the end of 1959.

It is expected that certain compensatory loans will have been substantially repaid by December 31, 1960. A total of \$431.9 million in compensatory loans is expected to be outstanding at the end of 1960 compared to \$662.6 million at the end of 1958, a reduction of \$230.7 million. Of the latter figure, \$96.1 million should represent a reduction in outstanding Ex-Im Bank loans and a reduction of \$33.4 million would represent the liquidation of the sterling commercial arrears.

To eliminate the prospective deficit for the year 1960 it is contemplated that certain measures may be taken to channel through the free market some current obligations, without basically changing the present exchange system. In this regard the possibility (which is under study) of allowing only payments for the FOB value of imports to go through the official market, with insurance and freight services through the free market, could result in relief to the official market budget of at least \$100 million a year on the basis of an annual import total of \$900 million in convertible currencies.

IV. Commercial loans

Brazilian indebtedness arising from commercial loans increased by \$303.5 million in convertible currencies during calendar 1958 and stood at \$1,101.1 million at December 31, 1958, comprising \$327.6 million in suppliers' credits and \$773.5 million in other loans.

No new commitments were incurred during 1958 under the automotive industries plan, and the total indebtedness under this item was reduced by \$74.4 million during the year--from \$398.0 million to \$323.6 million.

In reference to the agricultural equipment plan, the commitments existing prior to December 31, 1957 amounted to \$40 million in all currencies. Payments amounting to \$5.8 million were made in 1958, and by the end of last year outstanding commitments had been reduced to \$34.6 million in all currencies.

During 1958 the following changes occurred in the total amount of suppliers' credits (which term also includes goods imported under loan agreements with terms from 1 - 7 years);

	<u>US\$ million</u>
Commercial loans	+ 65.8
Automotive industry plan	- 74.4
Agricultural equipment plan	- 11.1
NET DECREASE	<u>19.7</u>

*Not cleared with
Brazilian report*

CONFIDENTIAL

200
BRAZIL - Minutes of Meeting
held in Office of Director, Western Hemisphere Department
3:30 P.M., Tuesday, March 3, 1959

Present:

Brazil

Mr. Paulo Correa, Director, Exchange
Department, Bank of Brazil

Mr. Casimiro Ribeiro, Advisor to the
Minister of Finance

Mr. Jorge Del Canto, Director, WHD
Mr. E. A. Costanzo, Deputy Director, WHD
Mr. Bruno Brovedani, Asst. Chief, WHD
Mr. J. A. Kirkwood, Economist, ERD

Mr. O Paranagua, Executive Director, also attended.

Following the review at the previous meeting of the current and prospective foreign exchange position of Brazil, the present meeting was taken up with a discussion of the broader subject of Brazil's exchange rate policy. On this matter Mr. Correa said he wished to state that the President of Brazil was firmly opposed to the introduction at this time of any major alteration in the Brazilian exchange system because he felt that it would have immediate harmful effects on the general level of domestic prices and from a political standpoint be so unacceptable as to create the dangerous risks of social upheaval. In reply to a question, Mr. Correa said that while the President was particularly concerned that there should be no adjustment in the preferential import rates for petroleum, newsprint, and wheat, he was nevertheless against a change in any of the other rates, particularly during the period of the next six months.

Both Messrs. Del Canto and Costanzo expressed disappointment that the Brazilian authorities were passing up the opportunity to undertake a thoroughgoing reform of the exchange system as this would mean not only the retention of the existing unrealistic rate structure but also the prospect that Brazil would continue to go from one exchange crisis to another. As the authorities would of course be well aware, the more depreciated rate structure that seemed to be necessary for Brazil would be only the reflection, and not the cause, of the internal inflation. The problem of readjustment could not be postponed forever: the longer it were delayed, the larger the necessary adjustment would be and the greater the political difficulties eventually to be overcome. It was also pointed out that it was now a generally accepted criterion that a country faced with the economic problems such as now confronted Brazil should be able to point to the introduction of some substantial exchange improvement in order to demonstrate to the Fund and others that a significant forward step was being taken in its economic policies.

The Brazilian representatives said that from a technical viewpoint they would agree with the views that have been expressed, but ~~the~~ decision not to undertake a major exchange reform at this stage had been taken on political grounds and in the view of the Brazilian authorities these were of overriding consideration. However, minor adjustments in the system would continue to be made as the need arose, and in this connection it was mentioned confidentially that SUMOC was currently studying a proposal to have payments for the FOB cost of imports made through the official market and the relative insurance and freight charges effected at the free market rate.

It was agreed that the exchange question would be taken up again following a discussion of Brazil's monetary and fiscal policies.

INTERNATIONAL MONETARY FUND

Date 3/6/59

TO:

(1) Mr. Del Canto Room.....

(2) Room.....

(3) Room.....

Subject: Brazil

Attached are confirmed minutes of the second meeting. A change was made in the last sentence of the first paragraph in the original draft minutes, at the request of the Brazilian representatives. Minutes of the first meeting are now confirmed.

FROM J. A. Kirkwood

Room 9¹⁵

BRAZIL - Minutes of Meeting (2nd)
held in Office of Director, Western Hemisphere Department
3:30 P.M., Tuesday, March 3, 1959

Present:

Brazil

Mr. Paulo Correa, Director,
Exchange Department, Bank of
Brazil

Mr. Casimiro Ribeiro, Adviser
to the Minister of Finance

Fund

Mr. Jorge Del Canto, Director, WHD
Mr. G. A. Costanzo, Deputy Director, WHD
Mr. Bruno Brovedani, Asst. Div. Chief, WHD
Mr. J. A. Kirkwood, Economist, ERD

Mr. O. Paranagua, Executive Director, also attended.

Following the review at the previous meeting of the current and prospective foreign exchange position of Brazil, the present meeting was taken up with a discussion of the broader subject of Brazil's exchange rate policy. On this matter Mr. Correa said he wished to state that the President of Brazil was firmly opposed to the introduction at this time of any major alteration in the Brazilian exchange system because he felt that such a measure would have immediate effects on the level of certain basic domestic prices and from a political standpoint be so unacceptable as to create the dangerous risks of social upheaval. In reply to a question, Mr. Correa said that the President's concern was mostly due to the fact that all import prices have been recently substantially increased, including wheat and petroleum, and that another increase that would specifically affect the prices of these products in the immediate or near future would place the Government in a very difficult position.

Both Messrs. Del Canto and Costanzo expressed disappointment that the Brazilian authorities were passing up the opportunity to undertake a thoroughgoing reform of the exchange system as this would mean not only the retention of the existing unrealistic rate structure but also the prospect that Brazil would continue to go from one exchange crisis to another. As the authorities would of course be well aware, the more depreciated rate structure that seemed to be necessary for Brazil would be only the reflection, and not the cause, of the internal inflation. The problem of readjustment could not be postponed forever; the longer it were delayed, the larger the necessary adjustment would be and the greater the political difficulties eventually to be overcome. It was also pointed out that it was now a generally accepted criterion that a country faced with the economic problems such as now confronted Brazil should be able to point to the introduction of some substantial exchange improvement in order to demonstrate to the Fund and others that a significant forward step was being taken in its economic policies.

The Brazilian representatives said that from a technical viewpoint they would agree with the views that have been expressed, but the decision not to undertake a major exchange reform at this stage had been taken on political grounds and in the view of the Brazilian authorities these were of overriding consideration. However, minor adjustments in the system would continue to be made as the need arose, and in this connection it was mentioned confidentially that SUMOC was currently studying a proposal to have payments for the f.o.b. cost of imports made through the official market and the relative insurance and freight charges effected at the free market rate.

It was agreed that the exchange question would be taken up again following a discussion of Brazil's monetary and fiscal policies.

Draft.

my own name
CONFIDENTIAL

BRAZIL - Minutes of the Third Meeting
held in Office of Director, Western Hemisphere Department
10:15 A.M., Wednesday, March 4, 1959

Present:

Brazil

Mr. Paulo Correa, Director, Exchange
Department, Bank of Brazil

Mr. G. A. Costanzo, Deputy Director, WHD
Mr. Bruno Brovedani, Asst. Div. Chief, WHD
Mr. J. A. Kirkwood, Economist, ERD

Mr. Casimiro Ribeiro, Advisor to the
Minister of Finance

Mr. O. Paranagua, Executive Director, attended at the conclusion
of the Fund Board Meeting.

Turning to Brazil's fiscal budget, Mr. Ribeiro said that the main objective of the 1959 budget was to limit the deficit to an amount of Cr\$12 billion. As approved by Congress, revenue in 1959 is estimated to be Cr\$147 billion, while expenditure amounting to Cr\$156 billion was approved. A month after Congress had approved the budget it granted (outside budget expenditures) a 30 per cent increase in the wages and salaries of Government employees with effect from January 1, 1959--this will amount to Cr\$20 billion and bring approved expenditures to Cr\$176 billion. The President's advisors had recommended that the new expenditure authorizations should be cut back by Cr\$35 billion to hold the deficit at Cr\$12 billion, and this was approved in a published Presidential decree which set out an economic program for Brazil for the whole of 1959. On this basis, the revised fiscal budget now consists of revenue of Cr\$147 billion and expenditures of Cr\$159 billion with a deficit of Cr\$12 billion. The expenditure figure is made up of budgetary expenditures of Cr\$121 billion and extra-budgetary expenditures of Cr\$38 billion, the latter figure comprising:

	<u>Cr\$ billion</u>
Increase in salaries and wages	20
Allowance for expenditures under- stated in defense forces 1959 budget	3
Liquidation of previous debts and special funds for development	9
Special credits in 1959 from 1958 authorizations	<u>6</u>
Total	<u>38</u>

Mr. Ribeiro said that this year's budget drew attention to the fact that certain expenditures would be undertaken only if sufficient revenues were available. This was a new principle for the Brazilian budget. A change in the economy plan can be effected only if economic circumstances have been fundamentally altered and then only by decree of the President. If an increase occurs in any item in the plan, a compensating adjustment will have to be made in some other item. Of the Cr\$35 billion cut under the economy plan, Cr\$27 billion is by way of a definite cutback and Cr\$8 billion is a reserve fund; should budget revenues be significantly higher than estimated, the authorities may recommend the release of some of the reserve fund, but any action of this kind would require a Presidential decree. Apart from the above, a supplementary decree was issued on February 12, 1959 instructing official Brazilian credit agencies not to advance any further monies to the public entities.

Apart from what has been achieved under the economy plan, the authorities hope to cut back current expenditures in other ways. On January 31, 1959 the President issued a decree covering the abolition of 5,000 vacancies in the public service--funds to cover these positions had

not been appropriated in the 1959 budget. It is, furthermore, the President's policy not to fill government positions as the present occupants retire. Some relevant data on government employment in Brazil will be made available to the staff at a later date.

Mr. Ribeiro said it was significant to note that the projected budget deficit of Cr\$12 billion would be only 8 per cent of the estimated revenue figure for 1959. In 1958, the deficit had amounted to 22 per cent of total revenues, and in 1957 it had been 46 per cent. In terms of the present program it was expected that the internal economy of Brazil would be in financial equilibrium in 1960.

Turning to budget revenue, Mr. Ribeiro stated that the revenue figure of Cr\$11.7 billion was made up as follows:

	<u>Cr\$ billion</u>
1958 revenue of Cr\$11.8 billion	
plus an increase of 12 per cent	1.32
Increased tax on cigarettes	.3
Additional revenue resulting from tax reform	<u>1.2</u>
Total	<u>11.7</u>

During 1959 the authorities expect a 12 per cent increase in revenue from income tax--i.e., from Cr\$31.8 billion in 1958 to Cr\$35.1 billion in 1959. Of this amount, Cr\$5.1 billion is expected to result from changes due to the income tax reform, while Cr\$4 billion will result from a widening of the field of incidence of the consumption tax which has now been placed on an ad valorem basis. Apart from these taxes, stamp taxes have been increased by 25 per cent over the level for 1958 and should bring in an additional Cr\$15.1 billion in 1959.

In drawing up the stabilization program the authorities had made the following basic assumptions:

1. The degree of stabilization in the period

The general level of prices in Brazil is not expected to be stabilized during the first part of 1959. Following the recent major adjustment in wages, the first semester will probably be marked by a series of price rises but there should be only negligible increases during the second semester. Over the year as a whole (December 1958 through December 1959) the authorities expect that there will be an increase in the general price index of about 10 per cent. In answer to a question, Mr. Ribeiro said that minimum wage rates had been increased by 60 per cent, effective January 1, 1959. Minimum wages, which differ by regions, apply to all workers except those in agriculture. As of December 31, 1958, minimum wage rates were being received by only 20 per cent of the total labor force. The authorities feel that, as the cost of living will rise, they must assume a further increase in the general level of wages during the rest of 1959 of about 20 per cent.

2. Money supply

Money supply will not be permitted to increase by more than 13 per cent in 1959 (corresponding to an expansion of Cr\$46.5 billion) on the assumption of a 10 per cent increase in the general level of prices and of 3 per cent rise in real national income. Currency in the hands of the public amounted to Cr\$115.3 billion at the end of December 1958, and this figure is expected to rise by Cr\$14.7 billion to Cr\$130 billion by the end of December 1959---showing an increase of Cr\$12.8 billion in currency in the hands of the public and of Cr\$1.9 billion in currency with the commercial banks.

3. Expansion in bank credit

During 1959 expansion in commercial bank credit will amount to Cr\$22.8 billion or 11.2 per cent more than the December 1958 figure. This estimate assumes that there will be no change in commercial bank reserve requirements or in the banking habits of the community, etc. The present reserve requirements are 11 per cent on sight deposits and 20 per cent on time deposits. The level of financial assistance to the banking system is not expected to show any increase during 1959--on the other hand, the figure is expected to decline. The Government's fiscal deficit of Cr\$12 billion is expected to be financed by the Bank of Brazil to the extent of Cr\$9 billion and by the commercial banks to Cr\$3 billion.

Draft

CONFIDENTIAL

BRAZIL - Minutes of the Fourth Meeting
held in Office of Director, Western Hemisphere Department
5.00 P.M., Thursday, March 4, 1958

Present:

The meeting was taken up with ~~the~~² discussion of the expected expansion of credit by the Bank of Brazil during 1959. Mr. Ribeiro said that the stabilization program assumed an increase in Central Bank Credit of Cr\$20.3 billion (or 17.5 per cent) during this period. It had also been assumed that there would be certain offsets to this increase such as an estimated rise of 4.8 per cent in the voluntary deposits of the commercial banks with the Bank of Brazil. Mr. Costanzo queried the basis of such a high projection as 17.5 per cent; ~~and~~ he pointed out that it would be almost impossible to convince any potential lending body that a program which included such a high estimate of credit expansion was genuinely one designed to bring about domestic economic stabilization. Mr. Ribeiro explained that this was a compromise figure; in fact, certain officials in the Bank of Brazil felt it should be higher if it were to cover the financing of the current coffee crop.

Mr. G. A. Costanzo

March 5, 1959

B. Brovedani

Brazilian Stabilization Plan for 1959

The Brazilian authorities have presented to the Fund a plan of economic stabilization for 1959. The Brazilian economy grew at a fast rate in the last decade at the cost of inflation and of recurrent serious balance of payments difficulties. Foreign indebtedness, mostly of short and medium-term maturity, estimated at about \$2.7 billion for December 1958, poses a serious problem. An excessive rate of credit and monetary inflation brought pressure on prices and wages and led to a sharp depreciation of the cruzeiro. The economic problems were made more recalcitrant by the emergency of the present coffee crisis, which has cut deeply into Brazil's foreign exchange earnings and has created the further problem of financing the coffee stockpiling program.

The over-all target

The stabilization program confines the rate of monetary expansion to 13 per cent for 1959 compared with a rise of money supply of 24 per cent in 1958 and 34 per cent in 1957. A greater effort is not believed feasible if deflation, unemployment and unfavorable social repercussions are to be avoided. Wages are expected to increase in 1959 as a result of negotiation adjustments based on the rise in living costs and owing to the 60 per cent increase, already granted and effected January 1, 1959 in minimum wages. Prices are expected to continue to rise at a sustained rate through mid-1959. The rate of increase is expected to be negligible in the second half of the year. In view of these prospects regarding wages and prices the Brazilian authorities have come to consider a greater limitation of monetary expansion as dangerous because it might set in motion a process of deflation with its unfavorable social and political repercussions.

Exchange rate policies

The stabilization plan does not envisage any major reform of the Brazilian exchange system in 1959, notwithstanding the general awareness of the urgency of such a step. There are important considerations extra-economic in nature which led to the decision that only minor adjustments can be undertaken in 1959, particularly during the first half of the year. A program originating in SUMOC was recently submitted to the President of the Republic, but its consideration was postponed to the future. This program envisaged the maintenance of the present rate for coffee exports, and of a few preferential rates for essential imports of petroleum and newsprint, while all other transactions would have been shifted to a free market.

Stabilization targets in major sectors

A monetary budget was used to determine sector targets such as the maximum fiscal deficit and credit expansion which the economy can tolerate and which are consistent with the general target of a monetary expansion of 13 per cent. This budget assumes certain fixed relationships between major economic variables to determine the targets in the various sectors.

CENTRAL FILES

(a) The 1959 cash deficit of the Federal Government is reduced through an economy plan to a maximum of Cr\$ 12 billion. Congress had approved a budget entailing a deficit of Cr\$ 47 billion since no provision was made for the financing of about Cr\$ 38 billion of extra-budgetary expenditures, including Cr\$ 20 billion for an increase in wages and salaries granted after the approval of the budget. Revenues are conservatively estimated at Cr\$ 147 billion (Cr\$ billion in 1958). The expansion of revenues results, chiefly, from the rise in prices, incomes, i.e., in the tax basis and also from the increase in tax rates approved by Congress. Budgetary expenditures are limited by the economy plan to Cr\$ 121 billion; extra-budgetary expenditures at Cr\$ 38 billion. The economy plan targets can only be modified by a decree. The Government also intends to reduce the number of Government workers by a policy of attrition leaving new vacancies unfilled. Government enterprises are barred from the use of loans by the banking system and must rely on the increase in the rates they charge to the public or on the use of other available funds. The Federal budget makes provision for the financing of their budgeted deficits.

(b) The expansion of Bank of Brazil credit to the private non-banking sector in 1959 is subject to a maximum limit of Cr\$ 20.5 billion or 17.5 per cent over the level outstanding at the end of 1958. This compares with a rate of expansion in 1958 of 26.4 per cent. Roughly 40 per cent of the new credit is to finance agricultural activities; chiefly, coffee production. The increase in the level of prices and of costs during the past year has induced the authorities to contemplate an expansion of this magnitude in this vital sector.

The Bank of Brazil expects to maintain unchanged throughout 1959 the level of its rediscounts to commercial banks. During 1958 rediscounts increased by about Cr\$ 9 billion or 69 per cent over the level at the end of December 1957. The pronounced expansion is partly explained by the need towards the end of the year to rescue some banks from failure by meeting heavy withdrawals of deposits from them. Notwithstanding the possibility of having to face some possible emergency in 1959 the Brazilian authorities believe that they can hold down rediscounts through the year to the level of December 1958.

The Bank of Brazil is expected to lend to the Government about Cr\$ 9 billion to help finance the Cr\$ 12 billion deficit; the Treasury expects to obtain Cr\$ 3 billion from the commercial banks. During 1958 Treasury borrowing from the banking system amounted to Cr\$ 28 billion.

(c) The factors listed above give rise to an expansion of issue of Cr\$ 29.3 billion. The principal offsets are: (1) An increase of deposits of the public with the Central Bank (Cr\$ 6.1 billion); (2) miscellaneous transactions of the Central Bank (Cr\$ 5.7 billion) and (3) an increase of required deposits of commercial banks with the Central Bank (Cr\$ 4.8 billion). Accounting for this, the net expansion of currency issue is placed at Cr\$ 14.7 billion, 15 per cent over the level outstanding at the end of December 1958.

(d) The monetary budget assumes no net contraction or expansion from the agio accounts. Gross agio profits will be entirely spent in financing the coffee stockpiling program (Cr\$ 20 billion) and of the other projects, according to the Brazilian law. However, it is believed that this builds up a hidden reserve in the monetary budget, considering the high level of these receipts.

(e) The expansion of commercial bank credit deemed consistent with an expansion of issue of 13 per cent is estimated at Cr\$ 25.8 billion or 14 per cent during 1959. This compares with an expansion of Cr\$ 57 billion or 24 per cent in 1958.

Mr. G. A. Costanzo

March 6, 1959

B. Brovedani

Tentative Appraisal of the Brazilian Monetary Budget for 1959

This appraisal of the Brazilian monetary budget is divided into two sections; one dealing with the general assumptions concerning the basic relationships of the major items in the budget, the other dealing with the general assumption that the "agio" accounts will be neutral in their monetary effect.

The exchange budget for 1959 assumes an expansion in money supply of 13 per cent; according to this target, money supply will rise from Cr\$356 billion in December 1958, to Cr\$403 billion in December 1959, with an increase of Cr\$46.5 billion. Currency issue is also expected to increase by roughly 13 per cent, consistently with the increase of money supply (cash preference ratios assumed stable). A calculation made on the basis of an assumed stability of basic inter-relationships of items leads to the determination of the expansion of credit of the Bank of Brazil to the private sector for 1959 (17.5 per cent), to the forecasts concerning changes in other assets and liabilities as shown in the following table.

Brazil—Changes in Selected Assets and Liabilities of
the Central Monetary Authorities

(- = zero change)

	1958 (Actual)		1959 (Programmed)	
	Cruzeiro billions	Percentage Change	Cruzeiro billions	Percentage Change
<u>Main Items</u>				
<u>Assets:</u>				
Loan to Treasury	20.9	19.9	19	7.1
Loan to private sector	24.3	26.4	20.3	17.5
Rediscounts	9.1	68.9	—	—
Credit to States and municipalities	-0.7	-4.9	—	—
Loan to others	—	—	—	—
Official entities	-0.9	-5.2	—	—
Other assets	n.a.	—	3.3	n.a.
<u>Liabilities:</u>				
Demand deposits	2.3	13.6	5.1	26.6
Time deposits	1.7	85.0	1.0	27.0
Other short-term liabilities	n.a.	n.a.	2.0	n.a.
Own resources	7.1	32.8	5.0	17.4
Deposit of commercial banks	0.5	1.3	4.8	12.2
Net " <u>agio</u> " balance	10.7	12.3	—	—
Paper money in-circu- lation	22.1	23.7	14.7	12.7

A review of the basic assumptions is in order. Table 2 lists the basic monetary ratios, which are assumed to remain stable in 1958 and 1959. These ratios are important because they are used in assessing the consistency of the target of the expansion of credit of the Bank of Brazil to the private sector with an increase of 12 per cent in money supply.

A mere inspection of the table shows that these ratios have varied considerably in the past. The ratio of currency out of banks to monetary deposits declined from 47.3 per cent in December 1955, to 37 per cent in December 1958. The average cash ratio of commercial banks declined from 26 per cent in December 1957, to 20.5 per cent in December 1958. It must also be observed that if a program of disinflation is adopted, this ratio can hardly be assumed as stable, since banks would tend to reduce their cash holdings. Periods of restriction may also determine shifts from time to demand deposits, which means that the ratio B4 can hardly be assumed stable.

Although it is difficult to assess the nature and the direction of the change in these ratios, it is hardly possible to assume them as fixed, except in normal periods with little inflation, or with little change in the general economic environment.

The expansion of loans of commercial banks is estimated at Cr\$25.8 billion or 11 per cent, which is deemed consistent on the basis of the assumptions reviewed above, with an increase of money supply of 13 per cent.

The agio accounts

The monetary budget assumes that the agio accounts, net of coffee stockpiling financing, are monetarily neutral. Some calculations provided to the staff indicate that a large contraction from these transactions is also possible, depending, mostly, on the level of the various exchange rates. In 1958 the agio accounts exercised a contractionary impact of about Cr\$10 billion.

Sales of exchange to importers, or for the purposes of debt repayment (excluding auctions) are estimated to provide Cr\$91.6 billion, or about Cr\$63 per dollar, since these payments are estimated at \$1,458 million. On the other hand, export bonuses are estimated to cost roughly Cr\$74.5 billion, or Cr\$42 for each coffee dollar, and Cr\$77 on the average for each dollar exported of other commodities (exports of \$611 million). Total exports are estimated at \$1,273 million, compared with about \$1,180 in 1958. These amounts are applied against the official purchases of coffee for stockpiling for Cr\$24.8 billion, road fund Cr\$9.9 billion, and miscellaneous Cr\$5 billion. Excluding the amounts to be derived from the auction market, payments exceed receipts by Cr\$22.6 billion.

CENTRAL FILES

In calculating the amounts derived from the auction market, an average auction rate of Cr\$170 per U.S. dollar was taken, and sales were assumed at \$450 million. On February 21 the agio amounted to Cr\$268 per U.S. dollar, about Cr\$100 higher than assumed in this table.

A practical way of examining these assumptions would set down the theorem that an average auction rate of Cr\$50 per dollar would make the exchange system monetarily neutral. On the basis of this, an average auction rate of Cr\$170 would give a deflationary impact of about Cr\$54 billion ($170 - 50 = 120$, $120 \div 450 = \text{Cr}\54 billion). If the average rate is (as on February 21, 1959) Cr\$268 per dollar, the same contractionary impact could be placed at more than Cr\$100 billion.

Another way of looking at the problem is to calculate, on the assumption of a neutral monetary impact, the degree of devaluation of export rates which could be absorbed. With an average auction rate of Cr\$170, the deflationary impact would be of Cr\$54.4 billion. If this is distributed to exporters, the average export bonus could be increased by Cr\$101 per dollar ($\frac{54.4}{1.273} \div 74.5 = 101$)

CENTRAL FILES

INTERNATIONAL MONETARY FUND

March 6, 1959

Mr. Cochran:

Attached for your information
are the agreed minutes of the
first two meetings with the
Brazilian delegation.

G. A. Costanzo

W.
Vic
Mr. B. Brovedani

March 2, 1959

G. Escobar

Brazil--Report for the Week Ended February 21, 1959

The average agio for U.S. dollars depreciated sharply to Cr\$268.2 per U.S. dollar in the week ended February 21, down 9.4 per cent from the rate quoted at the last auction two weeks before. Auctions of exchange for imports from the "area of limited convertibility" were resumed on January 21, after being suspended since December 16, 1958. The increased agios are attributed partly to a backlog of demand arising from the suspension of AGL dollar auctions, as well as to the January reduction in the totals of exchange offered at auction. These sales have continued at \$2.6 million per week during the month of February, as shown in the attached table.

According to press accounts, the free rate fluctuated within fairly narrow limits, and was quoted at Cr\$135 per dollar in the week ended February 21.

The monetary and fiscal situation was essentially unchanged from preceding weeks. The currency issue rose slightly on February 14, but remained unaltered in the following week.

The currency issue declined less than seasonally in January, and consequently the seasonally adjusted figures indicate a small increase during that month. In February a small seasonal decline of about 1 per cent is usual.

Government borrowing, measured by the net position of the Treasury with the Bank of Brazil and the issue of Treasury bills, declined slightly to Cr\$7.4 billion in the week ended February 21, Cr\$0.4 billion below the level of the preceding week.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period	Currency Issues	Percentage Change	Government Borrowing ^{1/}
1957: December	96.6	5.5	38.6
1958: January	94.0	-2.7	2.6
February	94.6	0.6	6.6
March	96.6	2.1	8.6
April	99.1	2.6	11.7
May	101.6	2.5	14.4
June	103.4	1.8	18.8
July	103.4	--	20.3
August	104.2	0.6	20.2
September	109.4	5.0	19.7
October	111.6	2.0	21.8
November	115.6	3.6	24.6
December	119.8	3.6	28.4
Week ended:			
1959: January 3	119.8	--	5.3
10	118.5	-1.1	6.4
17	117.1	-1.2	5.4
24	117.1	--	6.2
31	116.7	-2.6	6.1
February 7	116.8	--	6.2
14	117.3	0.4	7.8
21	117.3	--	7.4

^{1/} Figures for 1958 show the Government's cash deficit, while those for 1959 are the Treasury's net position with the Bank of Brazil, plus the net issue of Treasury bills. In 1958 Government borrowing overstated the cash deficit by about Cr\$3.7 billion. The excess of Government borrowing over the cash deficit is composed of the change in Treasury cash, deposits in the regional branches of the Bank of Brazil, and items in transit.

Brazil--Exchange Market

(In cruzeiros per U.S. dollar and in millions of U.S. dollars)

	Agio per US\$ 1/ (Monthly average)	Sales of Exchange at Auction ^{1/}		Free Market Rate (end of period)
		U.S. dollars	ACL dollars	
1957: December	66.8			90.5
1958: January	96.1	8.3	6.7	97.5
February	113.0	6.3	5.0	99.5
March	121.6	8.4	6.7	106.8
April	142.2	8.4	6.6	120.8
May	134.4	8.4	6.6	122.0
June	134.3	8.4	8.3	132.8
July	140.8	10.5	6.6	134.0
August	154.8	8.4	6.6	159.5
September	193.1	8.3	6.5 ^{2/}	156.3
October	189.3	6.7 ^{2/}	5.2 ^{2/}	140.8
November	182.6	6.7	5.2 ^{3/}	136.3
December	192.8	6.6	3.9 ^{3/}	138.5
Week ended:				
January 3	200.4	1.7		135 ^{4/}
10	203.5	1.7		145 ^{4/}
17	205.3	1.7 ^{6/}		139 ^{4/}
24	257.3	2.6		141 ^{4/}
31	235.8	2.6		139 ^{4/}
February 7	245.2	2.6		139 ^{4/}
14	5/	5/		137 ^{4/}
21	258.2	2.6		135 ^{4/}

^{1/} For Rio de Janeiro and Sao Paulo, only US and ACL dollars.

^{2/} Weekly sales were reduced by 20 per cent.

^{3/} Auctions of ACL dollars discontinued after December 16, 1958.

^{4/} New York Banks' selling prices for cable transfers on Friday of each week.

^{5/} No auction held.

^{6/} Sales at auction were reduced 12.5 per cent and ACL were combined with US dollars the following week.

INTERNATIONAL MONETARY FUND

February 9, 1959

Mr. Cochran:

Attached is a memorandum reviewing developments in Brazil during January 1959.

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

G. A. Costanzo

Mr. B. Brovedani

February 6, 1959

G. Escobar

Brazil--Report for the Week Ended January 31, 1958

Following the 12.5 per cent reduction in the sales of foreign exchange at auction in mid-January, the average agio for U.S. dollars rose sharply to Cr\$ 257.5 per dollar in the week ended January 24. Subsequently, the cruzeiro appreciated in the auction market, and was quoted at Cr\$ 235.8 per dollar in the week ended January 31. According to press reports, the free rate fluctuated within a narrow range during January, reaching Cr\$ 139 per dollar at the end of the month.

Sales of foreign exchange at auction in Rio de Janeiro and Sao Paulo have been reduced from \$2.96 million to \$2.58 million per week. As a result of restored European external convertibility separate auctions for ACL dollars are no longer held.

The currency issue declined seasonally to Cr\$ 116.7 billion, 2.7 per cent below the year end total of Cr\$ 119.8 billion. The decline was smaller than is usual at this time of the year; consequently the seasonally adjusted figures show a small increase of less than 1/2 billion cruzeiros between December and January.

The issue of Treasury bills and the Treasury's net position with the Bank of Brazil amounted to Cr\$ 6.1 billion on January 31, Cr\$ 2.1 billion below the level of the preceding week. Provisional figures indicate that total government borrowing during 1958 may have reached Cr\$ 28.4 billion.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

End of Period	Currency Issue	Government Borrowing <u>1/</u>
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	104.2	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
27	122.1	31.7
January 3	119.8	5.3
10	118.5	6.4
17	117.1	5.4
24	117.1	8.2
31	116.7	6.1

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

Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

	Agio per US\$ <u>1</u> / (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	139 ³ / ₁
29	171.9	135 ³ / ₁
December 6	185.9	135 ³ / ₁
27	2 ¹ / ₁	132 ³ / ₁
January 3	200.4	135 ³ / ₁
10	203.5	145 ³ / ₁
17	205.3	139 ³ / ₁
24	257.3	141 ³ / ₁
31	235.8	139 ³ / ₁

¹/₁ For Rio de Janeiro and Sso Paulo.

²/₁ No auction held.

³/₁ New York Banks' selling prices for cable transfers on Friday of each week.

Brazil - Debt Service (Interest and Amortization) in U.S. Dollars

(In millions of U.S. dollars)

	1960	1961	1962	After 1962	Totals
I. Commitments existing at the end of 1958	300.8	287.3	201.8	635.8	1,425.7
1. IMF	37.5	54.3	20.3	--	112.1
2. Exim Bank (\$300 million loan)	57.2	56.8	38.8	88.1	240.9
3. Commercial banks (\$200 million loan)	34.0	57.3	55.1	78.4	224.8
4. Commercial banks (\$58 million loan)	20.7	19.8	--	--	40.5
5. Bonded debt	11.8	11.8	4.9	39.4	67.9
6. Suppliers' credits with- out exchange priority	80.9	87.2	82.7	429.9	680.7
7. Credit lines (utilized)	52.0	--	--	--	52.0
8. Wheat	6.7	--	--	--	6.7
9. Imports of automobiles	--	0.1	--	--	0.1
10. Commercial arrears (in sterling)	--	--	--	--	--
II. Commitments to be contracted in 1959	58.8	24.9	15.8	63.0	162.5
1. Rubber imports	4.0	--	--	--	4.0
2. Wheat	14.7	--	--	--	14.7
3. Suppliers' credits, with exchange priority	--	--	15.8	63.0	78.8
4. GEIA	17.3	24.9	--	--	42.2
5. Interests on loans of Grupo "Light"	22.8	--	--	--	22.8
Total I and II	359.6	312.2	217.6	698.8	1,588.2

Source: Prepared by the staff on the basis of information provided by SUMOC.

Brazil - Debt Service (Interest and Amortization) in U.S. and ACL Dollars

(In millions of U.S. dollars)

	1960	1961	1962	After 1962	Totals
I. Commitments existing at the end of 1958	364.0	330.1	238.7	699.5	1,632.3
1. IMF	37.5	54.7	20.3	--	112.5
2. Exim Bank (\$300 m. loan)	57.2	56.8	38.8	88.1	240.9
3. Commercial Banks (\$200 m. loan)	34.0	57.3	55.1	78.4	224.8
4. Commercial Banks (\$58 m. loan)	20.7	19.8	--	--	40.5
5. Bonded debt	16.8	16.8	9.9	53.0	96.5
6. Suppliers' credits, without exchange priority	122.3	124.6	114.6	480.0	841.5
7. Credit lines (utilized)	52.0	--	--	--	52.0
8. Wheat	6.7	--	--	--	6.7
9. Imports of automobiles	--	0.1	--	--	0.1
10. Commercial arrears (in sterling)	16.8	--	--	--	16.8
II. Commitments to be contracted in 1959	90.2	52.6	33.9	97.8	274.5
1. Rubber imports	4.0	--	--	--	4.0
2. Wheat	14.7	--	--	--	14.7
3. Suppliers' credits, with exchange priority	--	--	24.5	97.8	122.3
4. GEIA	48.7	52.6	9.4	--	110.7
5. Interest on loans of Grupo "Light"	22.8	--	--	--	22.8
6. Other interest	--	--	--	--	--
Total I + II	454.2	382.7	272.6	797.3	1,906.8

Source: Prepared by the staff on the basis of information provided by SUMOC.

Brazil--Debt Service (Interest and Amortization) in ACL dollars

(In millions of U.S. dollars)

	1960	1961	1962	After 1962	Totals
<u>I. Commitments existing at the end of 1958</u>	<u>63.2</u>	<u>42.4</u>	<u>36.9</u>	<u>63.7</u>	<u>206.2</u>
1. IMF	--	--	--	--	--
2. Exim Bank (\$300 million loan)	--	--	--	--	--
3. Commercial banks (\$200 million loan)	--	--	--	--	--
4. Commercial banks (\$58 million loan)	--	--	--	--	--
5. Bonded debt	5.0	5.0	5.0	13.6	28.6
6. Suppliers' credits without exchange priority	41.4	37.4	31.9	50.1	160.8
7. Credit lines (utilized)	--	--	--	--	--
8. Wheat	--	--	--	--	--
9. Imports of automobiles	--	--	--	--	--
10. Commercial arrears (in sterling)	16.8	--	--	--	16.8
<u>II. Commitments to be contracted in 1959</u>	<u>31.4</u>	<u>27.7</u>	<u>18.1</u>	<u>34.8</u>	<u>112.0</u>
1. Rubber imports	--	--	--	--	--
2. Wheat	--	--	--	--	--
3. Suppliers' credits, with exchange priority	--	--	8.7	34.8	43.5
4. GEIA	31.4	27.7	9.4	--	68.5
5. Interest on loans of Grupo "Light"	--	--	--	--	--
6. Other interest	--	--	--	--	--
Total I and II	94.6	70.1	55.0	98.5	318.2

Source: Prepared by the staff on the basis of information provided by SUMOC

INTERNATIONAL MONETARY FUND

February 6, 1959

Mr. Southard:

Attached is a table comparing the 1959 exchange budget with the comparable data for 1958. The 1958 data is 11 months actual data projected on an annual basis by adding 1/11th of the actual data.

We will forward separately this afternoon several tables on Brazil's debt service for the period 1960-1962.

G. A. Costanzo

Brazil - Exchange Transactions in the Official Market for 1958, and
Exchange Budget for 1959

(In millions of U.S. dollars)

	(U.S. dollars)		(ACL)		(Convertible Currencies - Totals)	
	1958 (Actual ^{1/})	1959 (Exchange Budget)	1958 (Actual ^{1/})	1959 (Exchange Budget)	1958 (Actual ^{1/})	1959 (Exchange Budget)
A. RECEIPTS	611	611.2	305	243.6	916	854.8
1. Exports	569	600.0	299	240.0	868	840.0
Coffee	395	n.a.	119	n.a.	514	n.a.
Cotton	4	"	14	"	17	"
Cocoa	22	"	22	"	44	"
Lumber	2	"	8	"	11	"
Minerals	43	"	16	"	60	"
Other	102 ^{3/}	"	120	"	222	"
2. Services	6	-	6	-	12	-
3. Capital	36	11.2	-	3.6	36	14.8
Finnish loan	1	1.7	-	-	1	1.7
Other	35	9.5	-	3.6	35	13.1

Source: Prepared by the staff on the basis of information provided by SUMOC.

^{1/} January-November, annual rate.

	(U.S. dollars)		(ACL)		(Convertible Currencies - Totals)	
	1958	1959	1958	1959	1958	1959
	(Actual) ^{1/}	(Exchange Budget)	(Actual) ^{1/}	(Exchange Budget)	(Actual) ^{1/}	(Exchange Budget)
B. PAYMENTS	816	825.1	340	336.7	1,156	1,161.8
1. Imports	596	598.9	242	264.0	838	862.9
a) Preferential	393	452.7	95	172.1	488	624.8
Government	21	15.0	7	13.0	28	28.0
"Light" group	10	12.0	2	--	12	12.0
Wheat	41	--	--	--	41	--
Newsprint	6	9.2	4	2.9	10	12.1
Petroleum	232	203.4	42	40.5	274	243.9
Petrobras	33	30.0	15	7.0	48	37.0
Railroad equipment	8	10.0	3	--	11	10.0
Other	42	173.12/	22	108.72/	64	281.82/
b) Auction	203	146.23/	147	91.93/	350	238.13/
Petroleum	1	n.a.	--	n.a.	1	n.a.
Other	202	"	147	"	349	"
2. Services	82	68.3	18	--	100	68.3
Interest on foreign debt	36	47.0	9	--	45	47.0
Other services	46	21.3	9	--	55	21.3
3. Amortizations	138	157.9	80	72.7	218	230.6
Private suppliers' credits						
w/exchange priority	36)	28)	64)
Id. without exch. priority	21	(78.8	7	(43.5	28	(122.3
Public entities with exchange)))
priorities	28)	20)	48)
Bonded public debt	10	11.84/	10	12.44/	20	24.24/
Eximbank (\$300 million)	41	47.2	--	--	41	47.2
U.S. Banks (\$58 million)	--	19.4	--	--	--	19.4
Chase Manhattan	--	0.7	--	--	--	0.7
Arrears in sterling	--	--	--	16.8	--	16.8
CEIA	--	--	14	--	14	--
Other	2	--	1	--	3	--
C. DEFICIT	-205	-213.9	-35	-93.1	-240	-307.0

Source: Prepared by the staff on the basis of information provided by SUMOC.

1/Including exchange sold not yet remitted. 2/Including PVC outstanding. 3/Including interest. 4/Including interest.

The Managing Director

February 5, 1959

G. A. Costanzo

Brazil--Stand-by Limits and performance

Below is a comparison of Brazil's undertakings under its stand-by arrangement with the Fund and actual performance to the end of 1958.

A. Stand-by Commitments

1. Bank of Brazil credit to the private non-banking sector would not exceed Cr\$ 96.4 billion by the end of 1958, a net increase for 1958 of 5 per cent.
2. Bank of Brazil credit to states and municipalities was limited to the level outstanding at the end of 1957, i.e., Cr\$ 14.3 billion.
3. The level of Bank of Brazil rediscounts and other credits to commercial banks was not to exceed, as of the end of 1958, the level outstanding as of the end of 1957, i.e., Cr\$ 13.2 billion.
4. Currency issue would not be permitted to exceed Cr\$ 102 billion by the end of 1958, an increase for the year of 5 per cent.

B. Fiscal Ceiling

1. The Federal Government was to make the economies required to limit borrowing from all sources to Cr\$ 20 billion.

A. Actual Performance

1. These credits reached a level of Cr\$ 116 billion as of the end of 1958, an expansion during the year of 26 per cent.
2. Credit to states and municipalities amounted to Cr\$ 13.6 billion at the end of 1958, below the established target.
3. At the end of 1958 total rediscounts and other credits to commercial banks reached Cr\$ 22.3 billion or 69 per cent above the amount outstanding at the end of December, 1957.
4. On December 31, 1958, the currency issue was Cr\$ 119.8 billion, an expansion for the year of 24 per cent.

B. 1958 Actual Trends

1. Borrowing from the Bank of Brazil during the first eleven months of 1958 amounted to Cr\$ 13.4 billion; the issue of Treasury notes, during the same period, was Cr\$ 11.2 billion. Thus, total borrowing during the period January-November 1958 amounted to Cr\$ 24.6 billion.

C. Proposed Modifications of the Exchange System

1. In the letter of May 26, attached to the stand-by arrangement, the Finance Minister stated that Brazil would simplify the exchange system. The cocoa export rate was to remain at Cr\$ 45 per dollar, and the remaining products would be grouped into two categories, which would receive Cr\$ 70 and Cr\$ 92 per dollar. The Cr\$ 70 category included a limited number of primary products, while the majority of exports would receive the Cr\$ 92 rate.
2. The preferential rate for imports of petroleum and its products, wheat, newsprint, and for financial payments was to be increased immediately from Cr\$ 53.82 to Cr\$ 58.82. All other transactions receiving a preferential rate of Cr\$ 51.32 would be increased to Cr\$ 70. The preferential rate of Cr\$ 58.82 would be increased 10 per cent semi-annually until a rate of Cr\$ 70 would be reached.
3. In addition to the exchange modifications described above, the Government would "introduce with as little delay as possible further exchange measures with a view to attaining a unitary rate". In the revision of the stand-by arrangement (EBS/58/38), the Minister of Finance stated that the Government would make a complete review of the exchange system late in 1958.

C. Modifications up to January 12, 1959

1. The cocoa bean export rate remained at Cr\$ 45 per dollar up to January 10, 1959 when it was moved to Cr\$ 70 per dollar. The remaining products were gradually moved into the two categories of Cr\$ 70 and Cr\$ 92 until January 10, when the single rate of Cr\$ 100 was applied to all these commodities. In October 1958 some minor exports were shifted to the free market.
2. The proposed modifications were implemented in 1958. In January 1959 the two rates of Cr\$ 58.82 and of Cr\$ 70 were unified at Cr\$ 100 per dollar.
3. There was little progress towards unification; the number of rates and the spread between the maximum and minimum rates were not reduced (see attached table). The spread between maximum and minimum export rates was Cr\$ 60 at the beginning of last year, and increased to Cr\$ 85 in January 1959. On the import side, the spread between the maximum and minimum rates continued to widen. At the beginning of 1958 the spread was Cr\$ 22¹/₂; by January 1959 the spread increased to Cr\$ 32⁷/₈.

Table of Exchange Rates for Imports and Exports
at Selected Dates

	<u>May 30, 1958</u>	<u>January 12, 1959</u>
A. EXPORT RATES		
Coffee beans	37.06 plus ^{1/} a variable bonus	60.00
Cocoa beans	43.06	70.00
Cotton, hides	43.06	} 100.00
Other raw materials and agricultural products	55.00	
Other listed exports	67.00	
Free market exports ^{2/}		145.00
B. IMPORT RATES		
Newsprint	18.82	37.05 ^{3/} (64.39)
Government payments and imports. Equipment for petroleum industry, printing industry, etc. Wheat, fertilizers	51.32	} 100.00
Petroleum products	53.82	
Auction market		
General category	147.30 ^{4/}	219.63 ^{5/}
Special category	321.50 ^{4/}	363.89 ^{5/}

^{1/} A coffee premium of 3 per cent was granted on coffee sold at \$41 per 60 kg. bag and an additional 3 per cent of the local currency proceeds for each dollar in excess of this. Until July 1, 1958, the premiums were 1 per cent on coffee sold at \$43 per bag and an additional 1 per cent for each increase in price of \$1.

^{2/} Includes precious stones, reading material printed in Brazil and other minor exports, which were transferred to free market in October, 1958.

^{3/} The lower rate applies to publications weighing at most 80 grams. These rates are provisional.

^{4/} U.S. dollars only. Rio de Janeiro.

^{5/} U.S. dollars. Rio de Janeiro and Sao Paulo.

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 January 31, 1959 amount to 10,802.215 troy
ounces of fine gold; advice airmailed today. These charges
are payable within 30 days from date of cable.

Code

Test No.

INTERFUND

Drafted By DL Lechliter/sl
Office of the
Department Treasurer

Date February 2/59

AUTHORIZATION

[Signature]
Signature

Second Signature When Required

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



FOR CODE ROOM

Time Received 2:00 PM

Time Dispatched 2:50 PM

Number of Words 13

Log 27133

Route WU

Operator NU

DO NOT TYPE BELOW THIS LINE

INTERNATIONAL MONETARY FUND

January 29, 1959

Mr. Cochran:

Attached is our first progress report on Argentina, and the latest report on Brazil. The extra copy is for Mr. F. Southard.

J. Del Canto

Jorge Del Canto

Wm. Lusk

Mr. B. Brovedani

January 23, 1959

G. Escobar

Brazil--Report for the Week Ended January 10, 1959

?
1 The average agio for U.S. dollars rose further to Cr\$ 203.5 per dollar in the week ended January 10, 1.5 per cent above the preceding week. According to press reports the free rate depreciated by 7.4 per cent during the week to a low of Cr\$ 145 per dollar. Official notification has been received that as of January 3, the official market selling rate for U.S. dollars was raised from Cr\$ 18.82 to Cr\$ 18.92 per dollar.

The currency issue declined during the last two weeks from a peak of Cr\$ 122.1 billion to Cr\$ 118.5 billion on January 10. The decline reflects the normal beginning-of-the-year seasonal pattern.

The Treasury's net position at the Bank of Brazil and the issue of Treasury bills amounted to Cr\$ 16.0 billion on January 10.

The stand-by ceilings proposed in the letter of May 26, 1958 (attached to EBS/58/25, Sup. 3) were applicable in 1958. At present no ceilings agreed with the Fund limit the Government deficit, or the volume of currency issue.

CENTRAL FILES

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

<u>End of Period</u>	<u>Currency Issue</u>	<u>Government Borrowing 1/</u>
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	104.2	23.2
September	109.4	22.7
October	111.6	25.6
Week ended:		
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29	115.6	27.6
December 6	116.2	28.4
13	117.4	27.5
20	120.4	29.5
27	122.1	31.7
January 3	119.6	14.9
10	118.5	16.0

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

Brazil--Exchange Market
(In cruzeiros per US Dollar)

	Agio per US\$ $\frac{1}{2}$ (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
	189.3	
Week ended:		
November 8	192.6	139 $\frac{2}{2}$
29	171.9	135 $\frac{2}{2}$
December 6	185.9	135 $\frac{2}{2}$
13	184.9	133 $\frac{2}{2}$
20	199.8	130 $\frac{2}{2}$
27	$\frac{2}{2}$	132 $\frac{2}{2}$
1959: January 3	200.4	135 $\frac{2}{2}$
10	203.5	145 $\frac{2}{2}$

$\frac{1}{2}$ For Rio de Janeiro and Sao Paulo.

$\frac{2}{2}$ No auction held.

$\frac{3}{2}$ New York banks' selling prices for cable transfers on Friday of each week.

W
11
January 23, 1959

Dear Mr. Bergstein:

I wish to acknowledge receipt of your letters of January 9, DE/DIVIN/Cta.9/59, and January 12, Cta. DE/DIBAP-3/59, 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. Fernando Bergstein,
Chefe do Departamento, Interino
Divisao de Assuntos Internacionais
Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil.



Superintendência da Moeda e do Crédito

RECEIVED
CORRESPONDENCE
SECTION

Rio de Janeiro, 12 de janeiro de 1959

Cta. DE-DIBAP- 3 /59.

INTERNATIONAL
MONETARY
FUND

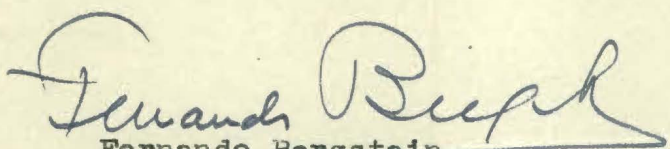
Mr. Jorge Del Canto, Director
Western Hemisphere Department
International Monetary Fund
19th and H St., N.W.
Washington 25, - D.C.
U.S.A.


Prezado Senhor,

Anexamos os quadros A, B, C, D e E relativos às operações de câmbio no Brasil, cobrindo o mês de novembro de 1958.

Atenciosamente,

DEPARTAMENTO ECONÔMICO
Divisão de Balanço de Pagamentos


Fernando Bergstein
Chefe do Departamento,
Interino


Guilherme Augusto Pegurier
Chefe da Divisão

Anexo.

/bra.



129128

Superintendência da Moeda e do Crédito

Rio de Janeiro, 9 de janeiro de 1959.

DE/DIVIN/Cta.9/59

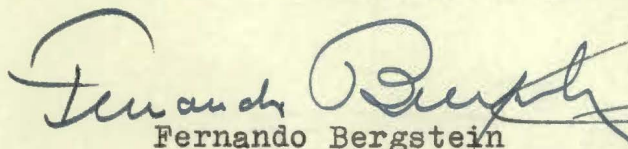
Mr.
Jorge Del Canto
Director of Western Hemisphere Department
International Monetary Fund
Washington 25, D.C.
U.S.A.

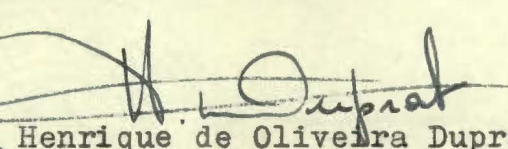
Prezado Senhor,

De acôrdo com os entendimentos mantidos entre o Governo 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 3 de janeiro.

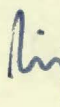
Atenciosas saudações,

DEPARTAMENTO ECONÔMICO
Divisão de Assuntos Internacionais


Fernando Bergstein
Chefe do Departamento Interino


Henrique de Oliveira Duprat
Chefe da Divisão Interino

Anexo.

AR/dfm.


JAN 23 1958

Mr. Per Jacobsson, Managing Director
Mr. H. Merle Cochran, Deputy Managing Director

Jorge Del Canto

Brazil

Mr. Octavio Parangua phoned to check when Costanzo would be arriving in Rio. I told him that Costanzo would be leaving La Paz tomorrow, January 24, and would spend the 25th, 26th, and 27th in Rio and will return to Headquarters on January 28th.

Mr. Parangua asked me to convey to you the message that he had talked to Minister Lucas Lopez about a reported change in the preferential rate for imports, from Cr\$80.00 per dollar to Cr\$100.62 per dollar, a change that Brazil had failed to report to us when the various export rates were adjusted on the weekend of January 10-11.

The Minister confirmed the fact that the change of the import rate had been made and he hoped that the Fund would be pleased with this action. The corresponding circular of SUBOC is en route from Rio to the IMF.

cc: Mr. Friedman
Mr. Gold
Mr. Brovedani

JDelCanto:arb

31992

WA4/JAN 23 VIA ALL AMERICA CABLES

OAW822 LPZNYX167

LAPAZ 41 23 935A

INTERFUND

WASHINGTONDC

PROCEEDING RIO JANUARY 24 PLAN REMAIN RIO JANUARY 26 AND 27

ARRIVING WASHINGTON JANUARY 28 ADDRESS

ANY MESSAGES TO HERCULANO SUMOC CLARK ZAYAS AND WATSON

WILL ARRIVE WASHINGTON SUNDAY JANUARY 25 VIA PANAGRA

FLIGHT 700 PLEASE INFORM FAMILIES

COSTANZO

24 26 27 28 25 700

Origin: WHD
cc: Mg. Dir.
Dep. Mg. Dir.
SEC

Called: Mrs. Costanzo
Mrs. Clark
Mrs. Zayaz
Mr. Watson



Cable & Radio System American Cable & Radio System American Cable & Radio System
RACLE NW DE 2-4300 AD 4-9000
8 DUPONT CIRCLE NW DE 2-4300 AD 4-9000
8 DUPONT CIRCLE NW DE 2-4300 AD 4-9000

Mr. B. Brovedani

January 21, 1959

G. Escobar

Brazil--Report for the Week Ended January 10, 1959

The average agio for U.S. dollars rose further to Cr\$ 203.5 per dollar in the week ended January 3, 1.5 per cent above the preceding week. According to press reports the free rate depreciated by 7.4 per cent during the week to a low of Cr\$ 145 per dollar. Official notification has been received that as of January 3, the official market selling rate for U.S. dollars was raised from Cr\$ 18.82 to Cr\$ 18.92 per dollar.

The currency issue declined during the last two weeks from a peak of Cr\$ 122.1 billion to Cr\$ 118.5 billion on January 10. The decline reflects the normal beginning-of-the-year seasonal pattern.

The Government budget deficit, as measured by the Treasury's net position at the Bank of Brazil and the issue of Treasury bills, was Cr\$ 16.0 billion on January 10.

The stand-by ceilings proposed in the letter of May 26, 1958 (attached to EBS/58/25, Sup. 3) were applicable in 1958. At present no ceilings (other than those proposed in the Brazilian Stabilization Plan) limit the Government deficit, or the expansion of currency.

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	104.2	23.2
September	109.4	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	27.5
20	120.4	29.5
27	122.1	31.7
January 3	119.8	14.9
10	118.5	16.0

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

Brazil--Exchange Market
(In cruzeiros per US Dollar)

	Agio per US\$ <u>1/</u> (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	139 <u>3/</u>
29	171.9	135 <u>3/</u>
December 6	185.9	135 <u>3/</u>
13	184.9	133 <u>3/</u>
20	199.8	130 <u>3/</u>
27	<u>2/</u>	132 <u>3/</u>
1959: January 3	200.4	135 <u>3/</u>
10	203.5	145 <u>3/</u>

1/ For Rio de Janeiro and Sao Paulo.

2/ No auction held.

3/ New York banks' selling prices for cable transfers on Friday of each week.

Mr. Jorge Del Canto

January 21, 1959

B. Brovedani

Financial Assistance to Bolivia, Paraguay and Brazil

Financial assistance to support the stabilization plans in Bolivia and Paraguay was as follows:

Bolivia

The stabilization arrangement was signed in November 1956. On that occasion the Fund made available \$7.5 million. The U.S. Treasury extended a stabilization loan of \$7.5 million. Drawings on the International Monetary Fund amounted to \$3 million in 1956, \$1 million in 1957 and \$2 million in 1958. No drawings were made on the Treasury stabilization loan. During this period, Bolivia received substantial aid from ICA under the Mutual Security Act. This aid included food imports financed abroad, cash grants, procurement authorization for the private sector and technical assistance. According to statistics available in the United States the total amount of grants is estimated at \$20 million for 1956, \$28 million for 1957 and \$20 million up to September 1958. In addition to this, Bolivia imported commodities under Public Law No. 480 for a value estimated at \$6.5 million in 1957 and \$1.9 million in 1958.

Paraguay

The stabilization effort of August 1957 was made with the support of a \$5.5 million stand-by with the International Monetary Fund and with a Treasury stabilization loan of a similar amount. Drawings on the International Monetary Fund stand-by amounted to \$3.5 million in 1957 and \$750,000 in 1958. No drawings were effected on the Treasury stabilization loan.

Foreign capital investment and official loans increased in 1957-58 in view of the successful stabilization of the Paraguayan economy. Loans from the Export-Import Bank for the water supply of Asunción and for the construction of the international airport, were utilized for a total of \$5.1 million in 1957 and \$2.8 million in 1958. During 1958, the Development Loan Fund extended a loan of \$2.5 million for a highway project. Aid under P1-480 was obtained in 1957 for an estimated amount of \$1.7 million. Negotiations are underway with the International Bank for the financing of the highway projects in 1959 and the following years. There was also considerable amount of private investment in 1957 and 1958 in the meat packing plants and in other economic activities.

Utilization of loans to Brazil

Credits totaling \$158 million were granted to the Bank of Brazil by the Export-Import Bank and by twelve U.S. commercial banks in August 1958. The Export-Import Bank loan amounted to \$100 million. As of November 30, 1958 \$85 million of the Export-Import Bank loan had already been disbursed. The commercial bank loans were utilized in reconstituting the lines of credit made available to Brazil by the same banks.

SEC-16,746

Translated by K. F. Magurn

31914

1/16/59

WA4/JAN16

AW929 NYX499 RIODEJANEIRO 39 6 503P BRASGOVT

INTERFUND FOR PER JACOBSSON WASHINGTONDC

BY VIRTUE INCREASE IN STAMP TAX, OFFICIAL MARKET SELLING
RATE FOR U.S. DOLLAR OR EQUIVALENT IN OTHER CURRENCIES
RAISED TO 18.92 CRUZEIROS AS OF JANUARY 3, 1959 THE BUYING
RATE REMAINING UNCHANGED

GARRIDO TORRES SUPERMOCRE

1. ~~Swedish~~
2. E

2. Am: file, Brazil

Orig: WHD

cc: Mg. Dir.

Dep. Mg. Dir.

Mr. Paranagua

ERD

LEG

RES

TRE

SEC

Received in the Code Room
January 16, 1959

All America Commercial Mackay Radio Cables and Radio Cables

System American Cable & Radio System American Cable & Radio System
8 DUPONT CIRCLE NW DE 2-4300 AD 4-9000
8 DUPONT CIRCLE NW DE 2-4300 AD 4-9000
8 DUPONT CIRCLE NW DE 2-4300 AD 4-9000

Via Commercial
Via Mackay Radio



Via All America
Via Commercial

1914

WA4/JAN16

AW929 NYX499 RIODEJANEIRO 39 6 503P BRASGOVT

INTERFUND FOR PER JACOBSSON WASHINGTONDC

VIRTUDE MAJORACAO IMPOSTO SELO TAXA DE VENDA MERCADO

OFICIAL DOLAR AMERICANO OU RESPECTIVOS EQUIVALENTES

OUTRAS MOEDAS FOI ELEVADA PARA CRUZEIROS 18,92 A PARTIR 3

JANEIRO CORRENTE VP PERMANECENDO INALTERADA TAXA COMPRA

GARRIDO TORRES SUPERMOCRE

18,92 A 3



Via All America
Via Commercial
Via Mackay Radio

W/11

1. ~~Brand~~
2. Mite:
 Mr Brand

197

WA4/JAN16

AW929 NYX499 RIODEJANEIRO 39 6 503P BRASGOVT

INTERFUND FOR PER JACOBSSON WASHINGTONDC

VIRTUDE MAJORACAO IMPOSTO SELO TAXA DE VENDA MERCADO

OFICIAL DOLAR AMERICANO OU RESPECTIVOS EQUIVALENTES

OUTRAS MOEDAS FOI ELEVADA PARA CRUZEIROS 18,92 A PARTIR 3

JANEIRO CORRENTE VP PERMANECENDO INALTERADA TAXA COMPRA

GARRIDO TORRES SUPERMOCRE

18,92 A 3

orig. being translated



W
January 16, 1959

Dear Mr. Bergstein:

I wish to acknowledge receipt of your letters Nos. DE/DIVIN/Cta.6/59 dated January 7 and DE/DIVIN/Cta. 7/59 of January 8 with summary tables of the data received by weekly cable in accordance with the agreement between the International Monetary Fund and the Brazilian Government.

Sincerely yours,

Jorge Del Canto
Director
Western Hemisphere Department

Mr. Fernando Bergstein
Chefe do Departamento Economico
Divisao de Assuntos Internacionais
Superintendencia da Moeda e do Credito
Rio de Janeiro, Brasil.



Superintendência da Moeda e do Crédito

Rio de Janeiro, 7 de janeiro de 1959.

DE/DIVIN/Cta.6/59

Mr.
Jorge Del Canto
Director of Western Hemisphere Department
International Monetary Fund
Washington 25, D.C.
U.S.A.

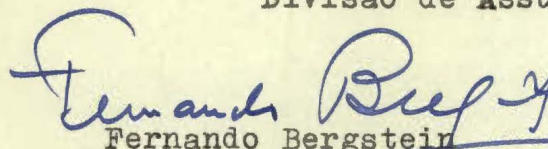
JAN 15 1 22 PM 1959
RECEIVED
COOPERATION
SECTION
INTERNATIONAL
MONETARY
FUND

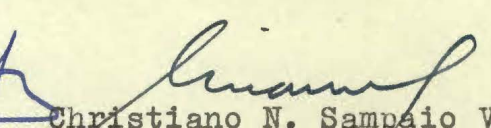
Prezado Senhor,

De acôrdo com os entendimentos mantidos entre o Governo 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 de ontem, contendo as informações constantes do quadro anexo, referentes à evolução do movimento cambial, fiscal e de crédito do Brasil, verificada na semana terminada em 27 de dezembro.


Atenciosas saudações,

DEPARTAMENTO ECONÔMICO
Divisão de Assuntos Internacionais


Fernando Bergstein
Chefe do Departamento Interino


Christiano N. Sampaio Vianna
Pelo Chefe da Divisão

Anexo.

 -AR/dfm.



CORRESPONDÊNCIA
SEÇÃO

JAN 15 1 25 PM 1959

Superintendência da Moeda e do Crédito

Rio de Janeiro, 8 de janeiro de 1959.

DE/DIVIN/Cta.7/59

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

Prezado Senhor,

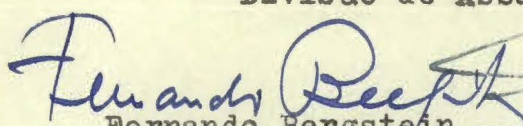
De acôrdo com os entendimentos mantidos entre o Govêrno brasileiro e o Fundo Monetário Internacional, e em atenção ao solicitado em sua carta de 10 de setembro pp., temos o prazer de enviar, complementando as informações remetidas anexas à nossa carta nº 215/58, de 1º de dezembro pp., quadros contendo dados mensais sôbre a evolução da situação cambial, monetária e fiscal do Brasil, até novembro último.

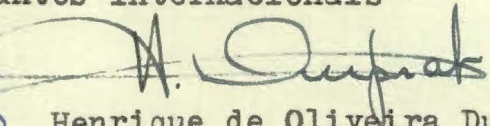
No que se refere ao quadro nº 7 (saldos de vedores do principal sôbre créditos concedidos para projetos específicos registrados na SUMOC), cabe-nos informar que serão remetidas informações a respeito tão logo sejam disponíveis.

Atenciosas saudações,

DEPARTAMENTO ECONÔMICO

Divisão de Assuntos Internacionais


Fernando Bergstein


Henrique de Oliveira Duprat

Chefe do Departamento Interino Chefe da Divisão Interino

Anexo.

AR/dfm.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

To: G. A. Costanzo
Bancocentral
La Paz, Bolivia

Cleared with Mr.
Jacobsson

Paranaqu reports Lucas Lopez needs urgently opinion and assistance Fund staff in order proceed with his planning. We would appreciate your spending not more than two or three days exploratory visit Rio enroute Washington. Leave your discretion whether it would not be possible make time by advancing your departure from La Paz and leaving associates to complete details. In any event will apparently be necessary extend Bolivian stand-by provisionally for brief period. Please telegraph plans when you are able decide.

Jacobsson

Dictated By H. Merle Cochran

Department Dep. Man. Dir.

Date 1/16/50

AUTHORIZATION

H. MERLE COCHRAN

Signature

cc: Mr. Jacobsson
Mr. Cochran
Mr. Del Canto



Second Signature When Required

FOR CODE ROOM

Time Received 10:50 AM

Time Dispatched 12:32 PM

Number of Words 97

Log 26994

Route ALL AMERICA

Operator MW

DO NOT TYPE BELOW THIS LINE

W/S
The Deputy Managing Director

January 15, 1959

Irving S. Friedman and Jorge Del Canto

Brazilian Exchange Rates

According to the Daily Report on Foreign Radio Broadcasts for Monday, January 12, 1959 the Ministry of Finance of Brazil has issued a statement indicating that included in the exchange reform described in EBS/59/2, Supplement 1, was an adjustment in the preferential rate for imports from Cr\$80.00 per U.S. dollar to Cr\$100.62 per U.S. dollar. This change was not mentioned in Mr. Paranagua's cable to the Fund and was not included in our paper.

We would suggest that, if you agree, we telephone Mr. Paranagua and ask him to obtain information about this latest change. When he submits it to the Fund officially, we would report to the Board in order to make sure that the record of this matter is kept clear.

WJRWoodley:ged



Office Memorandum *file: Brazil*

TO : Mr. Jorge Del Canto

DATE: January 13, 1959

FROM : G. Escobar *ge.*

SUBJECT : Brazil--Report for the Week Ended January 3, 1959

The average agio for U.S. dollars rose to Cr\$200.4 per dollar in the week ended January 3. No auction was held during the preceding week. According to press reports the free rate rose somewhat to Cr\$135 per dollar at the beginning of January.

The currency issue rose to Cr\$122.1 billion on December 27, Cr\$20.1 billion above the stand-by ceiling of Cr\$102 billion proposed for the end of December 1958. No information is available yet for the week ended January 3.

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\$31.7 billion in the week ended December 27. This level of borrowing exceeds by Cr\$11.7 billion the Government's target to limit borrowing from all sources to Cr\$20 billion in 1958. No budgetary information is available for the week ended January 3.

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
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August	154.8	159.5
September	193.1	156.3
October	189.3	140.8
Week ended:		
November 8	192.6	139 ^{3/}
29	171.9	135 ^{3/}
December 6	185.9	135 ^{3/}
13	184.9	133 ^{3/}
20	199.8	130 ^{3/}
27	<u>2/</u>	132 ^{3/}
January 3	200.4	135 ^{3/}

^{1/} For Rio de Janeiro and Sao Paulo.

^{2/} No auction held.

^{3/} New York banks' selling prices for cable transfers on Friday of each week.

Brazil--Currency Issue and Government Borrowing

(In billions of cruzeiros)

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

Mr. Jorge Del Canto

January 13, 1959

G. Escobar

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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\$31.7 in the week ended December 27. This level of borrowing exceeds by Cr\$11.7 billion the Government's target to limit borrowing from all sources to Cr\$20 billion in 1958. No budgetary information is available for the week ended January 3.

CENTRAL FILES

Brazil--Exchange Market

(In cruzeiros per U.S. dollar)

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Week ended:		
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29	171.9	135 <u>3</u> / ₂
December 6	185.9	135 <u>3</u> / ₂
13	184.9	133 <u>3</u> / ₂
20	199.8	130 <u>3</u> / ₂
27	<u>2</u> / ₂	132 <u>3</u> / ₂
January 3	200.4	135 <u>3</u> / ₂

1/ For Rio de Janeiro and Sao Paulo.

2/ No auction held.

3/ New York banks' selling prices for cable transfers on Friday of each week.

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13	117.4	27.5
20	120.4	29.5
27	122.1	31.7

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

CENTRAL FILES

SEC-16,766
Translated by Sophia Itama
Reviewed by K. F. Magurn
129197
1/23/59

UNITED STATES OF BRAZIL
SUPERINTENDENCY OF MONEY AND CREDIT

Rio de Janeiro, January 13, 1959

DE/DIVIN/Cta. 10/59

Exchange Restrictions Department
International Monetary Fund
Washington 25, D.C.
U.S.A.

Gentlemen:

We enclose statistical data on exchange certificate auctions held in Rio de Janeiro from December 2, 1958 to December 31, 1958 and in São Paulo from December 2, 1958 to December 30, 1958, together with the average rates for certain foreign currencies on the free market in Rio de Janeiro.

Very truly yours,

ECONOMIC DEPARTMENT
International Division

/s/

/s/

Fernando Bergstein
Acting Department Chief

Henrique de Oliveira Duprat
Acting Division Chief

Enclosures

MBC/RM

Orig. & Encl: ERD
cc of letter: Mr. Paranagua
WHD
Mr. Kalivoda

Received in Correspondence Sec. JAN 22 1959
Received from Translation Sec. JAN 23 1959

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

W/11

To: Dr. Jose Garrido Torres
~~Director Executive~~
 Superintendencia da Moeda e do Credito
~~180 Avenida Rio Branco, 9^o andar~~
 Rio de Janeiro, Brazil

No. 1.

Reference your request received January 8 through Mr. Paranagua, Executive Board took following decision today:

QUOTE Brazil has informed the Fund of certain changes in export rates. The Fund does not object to these changes on a temporary basis and intends to consult further with Brazil on these matters in the near future UNQUOTE

Per Jacobsson
Managing Director

Cleared with:
 Mr. Horne
 Mr. Del Canto
 Mr. Friedman

lu

EBS/59/2, Sup. 1
1/8/59

Drafted By F. Hodel
 Department Recy's Office
 Date January 9, 1959

- cc: Mg. Dir.
- Dep. Mg. Dir.
- Mr. Lopes
- WHD
- ERD
- LEG
- RES
- TRE
- SEC

AUTHORIZATION

Signed: Per Jacobsson
Signature

Second Signature When Required



DO NOT TYPE BELOW THIS LINE

FOR CODE ROOM
 Time Received 5:50 PM
 Time Dispatched 6:08 PM
 Number of Words 51
 Log 26930
 Route WESTERN UNION
 Operator ABT

Director, Exchange Restrictions Department
Director, Western Hemisphere Department

5:30 P.M.
January 9, 1959

The Secretary

Brazil - Proposed Changes in the Exchange System

This is to advise you that within the time specified, no Executive Director has asked for discussion of the proposed decision set forth in EBS/59/2, Sup. 1 (1/8/59). Accordingly, the Executive Board's approval is assumed and will be so recorded.

PKH

6/11
January 9, 1959

Dear Herculano:

I wish to acknowledge receipt of your letter of December 23, DE/DIVIN/Cta. 234/58, 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
Divisao de Assuntos Internacionais
Superintendencia da Moeda e do Credito
Rio de Janeiro, Brasil.



Office Memorandum *via: Brazil*

TO : Mr. J. Del Canto

DATE: January 8, 1959

FROM : E. Laso *Elaso*

SUBJECT : Data on Coffee

Monthly average spot prices in the New York market for Brazilian coffee (Santos Type 4) during 1958 were as follows:

	(US cents per lb.) ^{2/}
1957 December	55.35
1958 January	54.88
February	54.25
March	54.00
April	52.25
May	50.48
June	48.55
July	46.93
August	45.79
September	44.20
October	44.28
November	43.75
December (30)	41.75

Source: Weekly Information, Pan American Coffee Bureau.

Vi. Brazil

Mr. J. Del Canto

January 8, 1959

E. Lazo

Data on Coffee

Monthly average spot prices in the New York market for Brazilian coffee (Santos Type 4) during 1958 were as follows:

(US cents per lb.)

1957	December	55.35
1958	January	54.88
	February	54.25
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	April	52.25
	May	50.48
	June	48.55
	July	46.93
	August	45.79
	September	44.20
	October	44.28
	November	43.75
	December (30)	41.75

Source: Weekly Information, Pan American Coffee Bureau.

31815



6

SM WUL012 NL PD

WEST PALM BEACH FLO JAN 7

PER JACOBSSON

INTERFUND

I WISH TO COMMUNICATE TO FUND THAT IN ACCORDANCE WITH THE PROGRAM INDICATED IN THE LETTER OF THE BRAZILIAN FINANCE MINISTER OF JULY 1958 AND IN ORDER TO ESTABLISH MORE REALISTIC EXCHANGE RATES THE BRAZILIAN GOVERNMENT AFTER THIS CONSULTATION WITH THE FUND IS TAKING THE FOLLOWING STEPS: (1) THE RATE FOR COFFEE EXPORTS WILL BE 60 CRUZEIROS PER DOLLAR. THE PRESENT PREMIA SYSTEM WILL BE ELIMINATED (2) THE RATE FOR THE EXPORT OF COCOA AND ITS BY PRODUCTS WILL BE CHANGED TO 70 CRUZEIROS PER DOLLAR (3) ALL PRODUCTS NOW EXPORTED AT 70 AND 92 CRUZEIROS RATES WILL BE CHANGED TO A RATE OF 100 CRUZEIROS PER DOLLAR AND (4) THE EXPORT OF SOME PRODUCTS OF MINOR IMPORTANCE WHICH ARE MADE AT THE FREE MARKET RATE WILL REMAIN IN THE SAME POSITION AS AT PRESENT. THIS REVISION OF EXPORT RATES IS MADE WITH THE FRAMEWORK AND IN THE SPIRIT OF THE LETTER OF THE BRAZILIAN MINISTER OF FINANCE FOR THE PURPOSE OF A GRADUAL SIMPLIFICATION OF THE BRAZILIAN EXCHANGE SYSTEM. UNDER INSTRUCTIONS OF THE MINISTER I REQUEST THAT CONSIDERATION OF THESE STEPS BE TAKEN WITH SOME URGENCY BY THE EXECUTIVE BOARD OF THE IMF CORDIALLY

OCTAVIO PARANAGUA EXECUTIVE DIRECTOR

840AME JAN 8

Orig: WHD
 cc: Mg. Dir.
 Dep. Mg. Dir.
 ERD
 LEG
 RES
 TRE
 SEC

1958 (1) 60 (2) (2) 70 92 100 (4) IMF.

WESTERN UNION TELEGRAM