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CENTRAL FILES

CLASSIFICATION

C/Brazil/410 Multiple Currency Practices
1955

CONTENTS

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C/Brazil/410 Multiple Currency Practices

This file has been cited as a cross reference in:

C/Brazil/422 Free Exchange Markets

~~C/Brazil/440~~ ~~Gross-Rates--~~

S 1180 Coffee Study (Fund)

Plover Bond
25% COTTON FIBER
U.S.A.



Office Memorandum

TO : Mr. G. A. Costanzo

FROM : A. Foz *AF*

SUBJECT: Cruzeiro exchange rate for the Belgian franc

DATE: December 1, 1955.

In accordance with your instructions, I am summarizing herewith the information that is available on the behavior of the cruzeiro exchange rates for the Belgian franc during the recent past, and on the possible effects on these rates of the recent agreement between Brazil and the Benelux Union, under which Belgium and Luxembourg became members of the so-called Area of Limited Convertibility.

Since 1946, when Brazil declared the cruzeiro parity, and until October 9, 1953, orderly cross rates were maintained among all currencies and the "parity" rate for the Belgian franc was Cr\$0.37 per franc, the selling rate being Cr\$0.38, while the buying rate was Cr\$0.36. The changes in the Brazilian exchange system introduced in October 1953 and subsequent modifications have affected cross rates and the relative position of some currencies vis-a-vis others. The export and import rates have also been affected but in a different degree and at varying times.

A. Export rate.

Starting on August 14, 1954, the effective export rates of Cr\$23.36 and Cr\$28.36 resulting from the two export bonuses of Cr\$5.00 per US\$1— or its equivalent in other currencies—for exchange proceeds of coffee exports and Cr\$10.00 per US\$1 for exchange proceeds of all other exports—that had been established in October 1953—were applied to 80 per cent of export proceeds. For the remaining 20 per cent the equivalent of the free market rate of the previous day applied. Since cross rates were not maintained in the free market the effective export rates resulting from the new system were also broken.

On November 12, 1954, the Brazilian authorities fixed the effective rate for coffee exports for all currencies. For other export products, the link with the free market was maintained. In establishing the fixed bonus, the authorities sought to maintain both the absolute levels of the effective rates and the relative position of the various currencies vis-a-vis each other which prevailed previously.

In the free market, the cruzeiro rate for the Belgian franc was less depreciated than for the U.S. dollar, and the effective export rate for the Belgian franc was therefore actually less depreciated than the U.S. dollar and some other currencies. The following were the bonuses established on November 12, 1954 for the various currencies:

Copy, except tables, in C/440

(Cruzeiros per unit of foreign currency)

	Bonus	Equivalent in U.S. dollars	Effective rate
U.S. dollar	13.14	13.14	31.50
Pound sterling	36.792	13.14	31.50
Swiss franc	3.064	13.11	31.47
Swedish kronor	2.294	11.87	30.23
Agreement dollar	11.86	11.86	30.22
Icelandic pound	33.208	11.86	30.22
French franc	0.0338	11.83	30.19
Danish kroner	1,7014	11.75	30.11
<u>Belgian franc</u>	0.235	11.75	30.11

The mixing arrangement continued to be effective for exports other than coffee exports.

On January 17, 1955, four categories of exports were set up, with different sets of two bonuses for each category, one for convertible currencies and pounds sterling and one for other currencies. This change in the method of fixing effective rates resulted in the unification of the bonus to be paid on the exports grouped in the first category, for currencies other than the convertible currencies and the pound sterling, at the level of the bonus for agreement dollars, so the position of certain currencies, such as the Belgian franc, was improved in the sense that exports by Brazil to Belgium were facilitated.

A difference or discrimination of approximately 4 per cent was established between exports to be paid in convertible currencies and pounds sterling and those paid in other non-convertible currencies.

The resulting effective export rates were the following:

(Cruzeiros per U.S. dollar or its equivalent)

Export Category	Effective Rates		Difference between \$--E and other	
	US\$ and £	Other	Absolute	Per Cent
I	31.50	30.22	1.28	4.06
II	37.06	35.55	1.51	4.07
III	43.06	41.31	1.75	4.06
IV	50.06	48.03	2.03	4.06

On July 5, 1955, exports in German agreement dollars were granted the same rate as those paid in convertible currencies and the pound sterling and in August, 1955, with the establishment of the so-called "limited convertibility area", the same treatment was extended to the Dutch guilder. The recent inclusion of Belgium and Luxembourg in the area of limited convertibility results in the cruzeiro export rate for the Belgian franc actually being depreciated by about 4 per cent. Since now the effective

export rates that apply to Brazilian exports to the Benelux Union are the same rates applicable to exports in convertible currencies, any difference or discrimination against the Belgian franc has been abolished, orderly cross rates having been re-established among the Belgian franc, the U.S. dollar, the pound sterling, the Dutch guilder and the Deutsche mark.

B. Import rates

On the import side, orderly cross rates for the Belgian franc were maintained until October 1953 when the auction system was established, but have been broken since then, except in the case of some imports that are not subject to the auction procedure, such as newsprint, wheat, government imports and others.

The effective rates for imports under the auction system are obtained by adding the price paid for the exchange certificate (auction bid) to the official selling rate of Cr\$20.70 per US\$1 (Cr\$20.3256 until December 31, 1954) or its equivalent.

The price of the exchange certificates in the auction market is the result of the demand of the public on the one hand and a fixed supply resulting from a number of administrative decisions on the other. These administrative decisions are those taken by the authorities as to the total value of exchange offered for auction; the proportion of exchange allocated to each category; the commodity composition of the categories, etc. Thus this price varies from currency to currency, from one auction to another, and from city to city. Cross rates are broken.

As it can be seen from the attached tables that show the auction premia realized in the Stock Exchange of Rio de Janeiro during the last eight auctions for which data is available, the effective import cruzeiro exchange rates for the Belgian franc have been less depreciated than those for other currencies such as the U.S. dollar and the limited convertibility currencies.

Only a rough indication of the magnitude of the less depreciated position of the Belgian franc vis-a-vis the U.S. dollar and the limited convertibility currencies is possible, due to the continued fluctuation of the auction premia. Taking the effective rates resulting from the last auction in September (the last auction in which Belgian francs were auctioned for all five categories) the following table has been prepared:

Lowest effective exchange rates resulting from the last auction in September in the Stock Exchange of Rio de Janeiro of the indicated currencies.

(Cruzeiros per U.S. dollar or its equivalent)

	Weighted Average	Import Categories				
		I	II	III	IV	V
Limited convertibility currencies	129.51	94.20	119.20	153.70	261.50	427.20
U.S. dollars	118.50	92.70	106.30	169.70	236.80	306.70
Belgian francs	98.94	69.30	105.70	108.70	126.70	191.70

Absolute difference between the Belgian franc effective import rates and those for the limited convertibility currencies and the U.S. dollar

(Cruzeiros per U.S. dollar or its equivalent)

	Weighted Average	Import Categories				
		I	II	III	IV	V
Limited convertibility currencies	30.57	24.90	13.50	45.00	134.80	235.50
U.S. dollars	19.56	23.40	0.60	61.00	110.10	115.00

Percentile difference between the Belgian franc effective import rates and those for the limited convertibility currencies and the U.S. dollar

	Weighted Average	Import Categories				
		I	II	III	IV	V
Limited convertibility currencies	30.89	35.91	12.77	41.39	106.39	122.33
U.S. dollar	19.67	33.76	0.57	56.11	86.90	59.99

From the above tables it is apparent that the recent inclusion of Belgium and Luxembourg in the area of limited convertibility results in the effective cruzeiro import rates for the Belgian franc actually being depreciated by approximately 30 per cent, assuming that the rates for limited convertibility currency would remain unchanged.

A possible reason for the very large spread between the Belgian franc effective import rates and those for the limited convertibility currencies may be the fact that the total amount of exchange of limited convertibility currencies that has been offered for auction is rather small^{1/}, and to the fact that, for a certain period immediately prior to the announcement of the currencies pool, no exchange of any of the countries involved was auctioned. For instance, no German dollars had been auctioned since May 1955 and pounds sterling and Dutch guilders were not auctioned for a much longer period.

On November 24 the first auction of limited convertibility currencies since Belgium became a member of the pool was held in Rio de Janeiro. On the same day U.S. dollars at 120 days were also auctioned. The average auction premia registered are reported to have been the following:

Cruzeiros per U.S. dollar or its equivalent

Category	U.S. dollar	Limited convertibility currencies
I	69.05	67.00
II	81.25	76.70
III	150.80	118.50
IV	200.80	203.00
V	300.75	321.00

^{1/} German agreement dollars alone were once being auctioned at the rate of \$2 million per week.

The apparent reduction of the spread between the effective rates for the U.S. dollar and the limited convertibility currencies may, in part, be due to the inclusion of the Belgian franc in the pool--presumably increasing the total amount of exchange offered for auction. It is not known, however, what part of the limited convertibility currencies bought in the auctions may eventually be used to pay for imports from Belgium, since the buyer of the certificate can use it to import from any country in the pool.

Amounts auctioned and auction premia realized for the five categories at the Stock Exchange of Rio de Janeiro

Limited convertibility currencies

	Total Amount <u>1/</u>	I	II	III (minimum and maximum premia)	IV	V
Aug. 22	75,000	81.80 82.60	127.00 130.20	225.00 225.10	203.70 203.70	405.00 405.00
Aug. 29	120,000	89.00 89.60	131.10 131.40	160.40 191.00	206.00 206.00	400.70 400.70
Sept. 5	165,000	70.00 75.60	100.40 105.10	140.10 174.00	208.00 208.00	411.50 411.50
Sept. 12	165,000	80.00 81.10	105.10 115.60	150.00 151.20	207.50 208.00	420.20 420.20
Sept. 19	165,000	73.90 74.50	98.10 98.50	126.40 134.10	233.00 233.00	354.00 354.00
Sept. 26	165,000	73.50 75.00	98.50 101.60	131.00 131.40	241.00 241.00	406.50 406.50
Oct. 3	165,000	78.20 81.60	90.70 91.60	126.00 130.50	251.00 251.00	407.00 407.00
Oct. 10	165,000	80.00 80.20	93.00 96.50	127.60 130.10	251.00 251.00	350.20 351.00

1/ The amount is in equivalent U.S. dollars. Normally the Stock Exchange of Rio de Janeiro receives 30 per cent of the total amount offered in the country.

Belgian franc^{1/}

	Total Amount	I	II	III	IV	V
		(Minimum and maximum premia)				
Aug. 24	75,000	49.10 49.25	93.00 95.50	102.50 103.00	100.00 100.00	183.50 183.50
Aug. 31	75,000	47.00 47.50	95.50 98.00	106.00 108.50	78.00 78.00	150.00 150.00
Sept. 6	75,000	45.10 45.25	85.00 90.50	106.00 106.00	61.00 61.00	150.50 150.50
Sept. 14	75,000	48.00 49.00	83.50 85.00	115.00 117.00	100.00 100.00	152.50 152.50
Sept. 21	75,000	52.50 53.00	88.00 90.50	108.00 110.50	105.50 105.50	160.50 160.50
Sept. 28	75,000	48.60 49.30	85.00 85.50	88.00 90.00	106.00 106.00	171.00 171.00
Oct. 5	25,000	53.00 54.50	100.00 101.00	100.00 100.00	-- --	-- --
Oct. 12	25,000	53.00 55.00	75.00 80.50	112.00 112.00	-- --	-- --

^{1/} For the sake of comparison the data in this table have been calculated by multiplying the actual premia realized at auction by the relative par value to the U.S. dollar.

Amounts auctioned and auction premia realized for the five categories at the Stock Exchange of Rio de Janeiro

U.S. Dollars

	Total Amount	I	II	III (minimum and maximum premia)	IV	V
Aug. 23	540,000	73.80 75.30	101.60 106.90	158.50 170.00	211.00 211.00	304.00 308.00
Aug. 30	540,000	70.20 71.40	105.10 109.90	160.50 182.60	197.00 197.00	284.00 284.00
Sept. 6	540,000	71.20 75.00	100.50 106.50	156.00 164.00	204.00 205.50	286.00 286.00
Sept. 13	570,000	72.00 73.90	85.00 90.00	160.00 162.00	203.40 204.50	275.00 278.50
Sept. 20	570,000	73.00 75.50	88.80 90.40	150.20 156.00	202.10 202.10	280.00 282.50
Sept. 27	570,000	72.00 73.60	85.60 90.10	149.00 163.20	216.10 216.10	286.00 290.00
Oct. 5	540,000	70.00 73.80	92.10 96.00	140.00 143.80	170.00 170.00	302.00 302.00
Oct. 11	540,000	72.60 75.00	94.60 97.20	140.00 141.50	177.00 177.00	281.00 302.00

For Immediate Attention

EBS/55/36

CONFIDENTIAL

August 12, 1955

To: Members of the Executive Board

From: The Acting Secretary

Subject: Exchange System - Brazil

The attached staff note refers to a change in Brazil's exchange system as proposed in the cable from the Superintendency of Money and Credit quoted therein.

It is proposed not to place this matter on the agenda unless an Executive Director so requests by the close of business on Wednesday, August 17, 1955. In the absence of a request for formal consideration, a decision along the following lines will be inserted in the minutes of the next subsequent meeting of the Executive Board:

"1. The Government of Brazil has consulted the Fund on the transfer of penicillin in bulk, penicillin for injections, and other forms of penicillin including mixtures with streptomycin to Category V of the present classification of import products.

"2. The Fund does not object to the changes proposed by Brazil and will remain in consultation with the authorities."

Att:(1)

INTERNATIONAL MONETARY FUND

Brazil: Change of Import Category for Certain Commodities

Prepared by Western Hemisphere Department and
Exchange Restrictions Department

Approved by Gabriel Ferras and Jorge Del Canto

August 12, 1955

The following cable dated August 11, 1955, from the Superintendency of Money and Credit was transmitted to the staff by the Executive Director for Brazil:

"PLEASE REQUEST APPROVAL BY EXECUTIVE BOARD INTERNATIONAL MONETARY FUND OF THE 'INSTRUCTION' WE WILL ISSUE TRANSFERRING TO FIFTH CATEGORY INSTRUCTION 118 FOLLOWING PRODUCTS: PENICILIN BULK; PENICILIN FOR INJECTIONS; AND OTHER FORMS OF PENICILIN INCLUDING MIXTURES WITH STREPTOMYCIN ~~STOP~~ OTHER MIXTURES OF ANTI-BIOTICS, NOT SPECIFIED, EXCEPT THOSE MIXED WITH PENICILIN REMAIN IN FOURTH CATEGORY STOP

PRUDENTE MORAIS NETO"

Since the effective import rates result from the addition to the selling rates^{1/} for the cruzeiro—Cr\$ 20.702—of the auction "agio" or the amount bid in public auction for the respective promise to sell exchange, and since this second element fluctuates rather sharply from auction to auction and even within a single auction, it is not possible to indicate the percentage change in the rates that will result from the proposed shift.

On the basis of the available data (the weighted average effective import rates for U.S. dollars in all stock exchanges in Brazil up to April 1955) it appears that this measure would involve an increase in the effective import rates applicable to the above-mentioned commodities of perhaps over 50 per cent. In the case of penicilin in bulk, which would be shifted from Category III into Category V in the proposed measure, there would be an increase in the effective import rate of approximately 40-50 per cent.

The Brazilian Government has not communicated any specific reasons for the proposed measure which, however, appears to be in line with the general trend of recent adjustments in the export and import categories aiming to keep exports moving and to economize foreign exchange by discouraging the importation of those commodities whose relative essentiality to the country's economy have diminished. The Brazilian production of such products has increased recently.

No data are available on the value of Brazilian imports of the commodities affected by the proposed shifts but it is believed to represent a rather small percentage of total imports.

^{1/} The selling rate for private imports is the sum of the official selling rate of Cr\$ 18.82 and the 10 per cent remittance tax.

Brazil

090299



Office Memorandum

TO : Mr. H. Merle Cochran, Acting Managing Director

FROM : O. Paranaguá, Executive Director *OP*

SUBJECT: Brazilian Exchange System

DATE: August 11, 1955.

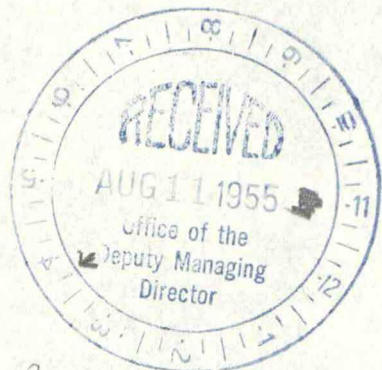
I wish to communicate to you as Acting Chairman of the Board a telegram just received from the Superintendency of Money and Credit.

Translation:

PLEASE REQUEST APPROVAL BY EXECUTIVE BOARD INTERNATIONAL MONETARY FUND OF THE "INSTRUCTION" WE WILL ISSUE TRANSFERRING TO FIFTH CATEGORY INSTRUCTION 118 FOLLOWING PRODUCTS:

PENICILIN IN BULK; PENICILIN FOR INJECTIONS; AND OTHER FORMS OF PENICILIN INCLUDING MIXTURES WITH STREPTOMYCIN STOP OTHER MIXTURES OF ANTI-BIOTICS, NOT SPECIFIED, EXCEPT THOSE MIXED WITH PENICILIN REMAIN IN FOURTH CATEGORY STOP

PRUDENTE MORAIS NETO



Rec'd 3:45 pm
JH

EBS/55/30

Copy of telegram received by Mr. Paranaguá on August 11, 1955 from the
Superintendency of Money and Credit, Rio de Janeiro, Brazil.

WAI/AUG 11 VIA ALL AMERICA CABLES

EW688/RIX348IRIODEJANEIRO 53 11 218P

INTERFUND FOR OCTAVIO PARANAGUA

WASHINGTONDC

SOLICITAMOS PEDIR APROVACAO JUNTA DIRETORA FUNDO INSTRUCAO VAMOS BAIXAR
TRANSFERINDO PARA QUINTA CATEGORIA INSTRUCAO 118 SEGUINTE PRODUTOS:
PENICILINA AGRANEL, INJECOES PENICILINA, OUTRAS FORMAS PREPARO PENICILINA
ASSOCIADOS, PENICILINA COM ESTREPTOMICINA PT
COMUNICAMOS CONTINUAM CLASSIFICADAS QUARTA CATEGORIA "ASSOCIACOES DE
ANTIBIOTICOS NAO ESPECIFICADOS EXCETO COM PENICILINA"

PRUDENTE MORAES NETO

SECRET

INFORMAÇÃO DA CARTEIRA DE CAMBIO DO BANCO DO BRASIL

Receitas em moedas arbitraveis e compensadas nos dois primeiros trimestres de 1955.

(convertidas em dólares)

DECLASSIFIED

DECLASSIFIED

Mr. Anoop Singh 8/30/67

	ARBITRAVEIS	COMPENSADAS
1º Trimestre	\$ 100,657,655.00	187,575,215.00
2º Trimestre	\$ 139,380,762.00	213,451,313.00
	\$ 240,038,417.00	401,026,528.00

- 0 - 0 - 0 -

Posição Geral dos Compromissos Cambiais

(Posição de câmbio, promessas de venda de câmbio, atrasados comerciais, e prioridades de fornecimento de câmbio registradas na SUMOC e outras quantias de cobertura a prazo.)

	ARBITRAVEIS	TODAS AS MOEDAS (arbitraves in- cluidas)
31 - V - 55	1,388,437,158.00	1,942,420,830.00
30 - VI - 55	1,387,249,713.00	1,898,534,988.00
31 - VII - 55	1,368,625,268.00	1,850,722,612.00
Melhor de	19,800,000.00	91,700,000.00

August 6, 1955



Office Memorandum

146
TO : Mr. Friedman

DATE: August 2, 1955

FROM : O. Donner

SUBJECT: Brazil - Change in Regime Applicable to German Agreement Currency.

In your memorandum of July 12 to Mr. Lueck you asked a few questions concerning the new Germany-Brazil payments agreement. After consultation with my Government I have the following to reply to these questions:

Ad your question 1:

The currency of the new July 1, 1955 payments arrangement, which became effective on August 1, is the partly convertible DM (BEKO-Mark). The degree of its transferability is basically ruled by the provisions governing the BEKO-Mark. However, during the first stage (a short transitional period), the DMark is bilaterally restricted to the extent that Brazil will use it only for payments to the Federal Republic. The multilateral system (second stage) will be introduced as soon as Great Britain and the Netherlands have made similar arrangements with Brazil.

Ad your questions 2 and 5:


The new Agreement provides for a temporary line of credit established by the Bank deutscher Länder in favor of the Banco do Brasil up to a limit of DM 80 million in a special credit account. Since - beginning August 1, 1955 and continuing until such time as the balance of the old account (amounting to about \$28 million) has been reimbursed to the Bank deutscher Länder - all German payments to Brazil will be paid into the old US-dollar account, the aforementioned credit is to enable Brazil to resume the auctioning of certificates for imports from Germany which was discontinued on May 9, 1955.

Ad your question 3:

Germany is allowed to reexport Brazilian commodities into third countries. However, in the case of reexports in freely convertible currencies, payments to the Brazilian suppliers must be made in these currencies. Brazil is furthermore entitled to deny the reexport into such countries with which it has bilateral arrangements, if the reexports would hamper the fulfillment of the obligations under such bilateral arrangements.

Ad your questions 4 and 5:

The free market for Brazilian accounting dollars will continue to exist until the Germany-Brazil US-dollar account is liquidated and the market in free accounting dollars thereby automatically disappears. The German authorities expect the US-dollar account will be closed within six months, at the latest.



COPY

August 2, 1955

TO : Mr. Friedman
FROM : O. Donner
SUBJECT: Brazil — Change in Regime Applicable to German Agreement Currency.

In your memorandum of July 12 to Mr. Lueck you asked a few questions concerning the new Germany-Brazil payments agreement. After consultation with my Government I have the following to reply to these questions:

Ad your question 1:

The currency on the new July 1, 1955 payments arrangement, which became effective on August 1, is the partly convertible DM (BEKO-Mark). The degree of its transferability is basically ruled by the provisions governing the BEKO-Mark. However, during the first stage (a short transitional period), the DMark is bilaterally restricted to the extent that Brazil will use it only for payments to the Federal Republic. The multilateral system (second stage) will be introduced as soon as Great Britain and the Netherlands have made similar arrangements with Brazil.

Ad your questions 2 and 5:

The new Agreement provides for a temporary line of credit established by the Bank deutscher Lander in favor of the Banco do Brasil up to a limit of DM 80 million in a special credit account. Since —beginning August 1, 1955 and continuing until such time as the balance of the old account (amounting to about \$28 million) has been reimbursed to the Bank deutscher Lander — all German payments to Brazil will be paid into the old US-dollar account, the aforementioned credit is to enable Brazil to resume the auctioning of certificates for imports from Germany which was discontinued on May 9, 1955.

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Germany is allowed to reexport Brazilian commodities into third countries. However, in the case of reexports in freely convertible currencies, payments to the Brazilian suppliers must be made in these currencies. Brazil is furthermore entitled to deny the reexport into such countries with which it has bilateral arrangements, if the reexports would hamper the fulfillment of the obligations under such bilateral arrangements.

Ad your questions 4 and 5:

The free market for Brazilian accounting dollars will continue to exist until the Germany-Brazil US-dollar account is liquidated and the market in free accounting dollars thereby automatically disappears. The German authorities expect the US-dollar account will be closed within six months, at the latest.

EBD/55/110

August 1, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: New German Brazilian Agreement

There follows for the records of the Executive Directors the text of the statement made by Mr. Donner at Meeting 55/50.

On May 27, 1955, in concluding its 1954 consultations with Germany, the Fund recommended that consideration should be given to the early removal of the existing special arrangement concerning the German-Brazilian accounting dollar.

On the basis of new German-Brazilian agreements made in Rio de Janeiro on July 1, 1955, the special arrangement mentioned will shortly come to an end. Under the new arrangements, the account of the Bank deutscher Länder with the Banco do Brazil, now in the amount of about US\$28 million, will be liquidated through payments for deliveries of Brazilian goods, and in future no payments will be made by Brazil into the account. The period for liquidation of this account will be less than six months, so that in 1956 a special arrangement with Brazil in the sense of paragraph 4 of the Fund's recommendations will no longer exist.

Moreover, the new German-Brazilian agreement provides that all payments between the Federal Republic of Germany and the Land Berlin on the one hand, and the United States of Brazil on the other, may be made through partly convertible DM-Accounts, or in other currencies to the extent that the regulations of the two countries governing international payments allow. The Fund is familiar with the meaning of the partly convertible DM Accounts, which is explained in the 1955 Report on Exchange Restrictions on page 152, paragraph 2 of the section on Germany.

To prevent interruption of trade between the two countries, the Bank deutscher Länder has extended the Banco do Brazil a temporary credit of DM 80 million, to which recourse may be made by withdrawals from a DM-Special Account. The credit is repayable at 3% interest at the rate of at least DM. 1,5 million monthly, beginning with February 1956.

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

INTERNATIONAL MONETARY FUND
Washington 6, D. C.

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

To: Prudente de Moraes, Neto
Executive Director
Superintendency of Money and Credit
Rio de Janeiro, Brazil

Executive Board took following decision today:

QUOTE 1. The Government of Brazil has consulted the Fund on the transfer of leaf tobacco and sawn pine wood to Category III, and of finished pine, cured skins and hides, other types of wood, carnauba wax, cocoa cakes, iron ore, manganese ore, tantalite, columbite, monazite, piezoelectric quartz, scheelite, magnezite, mica and zirconium to Category IV of the present classification of export products.

2. The Fund does not object to the changes proposed by Brazil and will remain in consultation with the authorities, particularly in regard to the discriminatory currency aspects of the export rate structure UNQUOTE

Cochran
 Acting Managing Director

Cleared with
Mr. Horne

EBM/55/50, 7/30/55
 EBS/55/33, Sup. 1,
 7/28/55

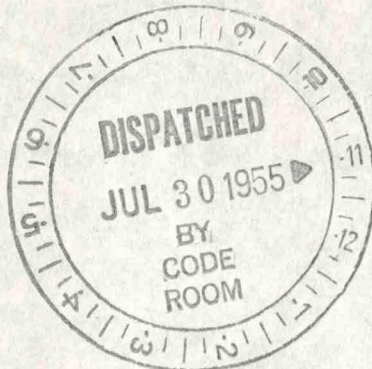
By F. Hodel
 Department Secy's Office
 Date July 30, 1955

AUTHORIZATION

H. MERLE COCHRAN
 Signature

Second Signature When Required

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



FOR CODE ROOM

Time Received 11:15 AM
 Time Dispatched 11:30 AM
 Number of Words 119
 Log 18177
 Route All America
 Operator CB

For Immediate Attention

EBS/55/33
Supplement 2

CONFIDENTIAL

July 29, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: Exchange System - Brazil

Some Executive Directors have requested that the adoption of the decision set forth in page 2 of EBS/55/33, Sup. 1 be deferred. Accordingly, the draft decision is not deemed to have been approved as proposed in the memorandum. A further memorandum by the staff will be circulated at a later stage.

For Immediate Attention

Irving S. Friedman

EBS/55/33
Supplement 1

CONFIDENTIAL

July 28, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: Exchange System - Brazil

Attached for the Executive Directors' consideration are the staff's analysis and a draft decision regarding the proposal from Brazil (EBS/55/33). The Acting Managing Director does not propose to bring this matter to the agenda for discussion unless an Executive Director so requests. In the absence of such request by noon on Friday, July 29, 1955, the proposed decision will be deemed approved by the Executive Board and will be recorded in the minutes of the next meeting thereafter.

Att: (1)

INTERNATIONAL MONETARY FUND

Brazil: Change of Export Rates for Certain Commodities

Prepared by Western Hemisphere Department
and Exchange Restrictions Department

Approved by Irving S. Friedman and Jorge Del Canto

July 28, 1955

By a cable of July 28, 1955, the Brazilian Government has informed the Fund of its intention to shift leaf tobacco and sawn pine wood to Category III and finished pine, cured skins and hides, "other types of wood", carnauba wax, cocoa cakes, iron ore, manganese ore, tantalite, columbite, monazite, piezoelectric quartz, scheelite, magnezite, mica and zirconium to Category IV of the present classification of export products. (See EBS/55/33)

By this measure, the effective export rates applicable to the commodities mentioned above will be raised, as indicated in Table 1 attached.

The effective rates will be increased for export proceeds in all currencies by: 35 per cent for finished pine, other types of wood, carnauba wax, iron ore, manganese ore, tantalite, columbite, monazite, and piezoelectric quartz; and by 16 per cent for leaf tobacco, sawn pine wood, cured skins and hides, cocoa cakes, scheelite, magnezite, mica and zirconium.

The percentage of discriminatory differential in favor of convertible currencies, sterling and Deutschmarks ^{1/} appears to remain unchanged for all these commodities at about 4 per cent.

The attached Table 2 indicates the value of exports in 1953 and 1954 of the commodities affected by the proposed shifts. On the whole, these commodities account for a little less than 10 per cent of the total value of Brazilian exports. The commodity breakdown, so far as available, is as follows: Leaf tobacco, 1.20 per cent; sawn pine, 3.00 per cent; skins and hides, 1.00 per cent; carnauba wax, 1.25 per cent; cocoa cakes, 1.00 per cent; iron ore, 1.50 per cent; and other minerals, 1.20 per cent.

While mineral exports go primarily to the United States and sawn pine to Argentina, the other commodities mentioned do not have any definite destination bias.

^{1/} Deutschmarks have recently been given the same treatment and bonus as for U.S. dollars and pounds sterling. (See EBS/55/28.)

The Brazilian Government has not communicated any specific reasons for the present steps. From information obtained by the Fund staff during the Article XIV Consultations discussions in Brazil in May 1955, however, it is known that the cost of production of most minor exports has been rising recently and that some relief to the exporters was considered necessary by the authorities. In addition, the world prices for some commodities like cacao and hides and skins have shown a declining trend recently, and this may have motivated the proposed export rate changes.

In view of the difficult payments position of Brazil and the need to keep exports moving, the staff recommends that the Fund may take a decision not to object to the proposed shifts of commodities to higher export categories. Since the shifts still do not modify the discriminatory currency aspects of the export rate structure, however, the decision could appropriately leave open the possibility of examining these and other aspects of the changes on the occasion of the next Article XIV Consultations with Brazil.

Accordingly, the staff recommends the following decision for the consideration of the Executive Board:

1. The Government of Brazil has consulted the Fund on the transfer of leaf tobacco and sawn pine wood to Category III, and of finished pine, cured skins and hides, other types of wood, carnauba wax, cocoa cakes, iron ore, manganese ore, tantalite, columbite, monazite, piezoelectric quartz, scheelite, magnesite, mica and zirconium to Category IV of the present classification of export products.

2. The Fund does not object to the changes proposed by Brazil and will remain in consultation with the authorities, particularly in regard to the discriminatory currency aspects of the export rate structure.

Commodity	Present export category	Present effective rate (Cr\$ per US\$)		Proposed export category	Proposed effective rate (Cr\$ per US\$)	
		For export proceeds in convertible currencies, sterling, and DM	For export proceeds in other currencies		For export proceeds in convertible currencies, sterling, and DM	For export proceeds in other currencies
1. Leaf tobacco	II	37.06	35.55	III	43.06	41.31
2. Sawn pine wood	II	37.06	35.55	III	43.06	41.31
3. Finished pine	II	37.06	35.55	IV	50.06	48.03
4. Curèd skins and hides	III	43.06	41.31	IV	50.06	48.03
5. Other types of wood	II	37.06	35.55	IV	50.06	48.03
6. Carnauba wax	II	37.06	35.55	IV	50.06	48.03
7. Cocoa cakes	III	43.06	41.31	IV	50.06	48.03
8- Iron ore, manganese ore,)						
13. tantalite, columbite,)						
monazite, and piezo-)	II	37.06	35.55	IV	50.06	48.03
electric quartz)						
14- Scheelite, magnezite,)						
17. mica, and zirconium)	III	43.06	41.31	IV	50.06	48.03

Table 2. Brazil: Value of Exports of Selected Commodities
to All Destinations

(In thousands of U.S. dollars)

	Jan-Dec 1954	Jan-Dec 1953	Increase (+) Decrease (-) in 1954
<u>I. From Category II to Category III</u>			
Tobacco	18,265	22,958	-4,693
Pine wood	37,514	51,192	-13,678
Total	55,779	74,150	-18,371
<u>II. From Category III to Category IV</u>			
Finished Pine	n.a.	n.a.	n.a.
Cured Skins and Hides	11,266	20,214	-8,948
Other types of wood	n.a.	n.a.	n.a.
Carnauba wax	16,113	16,431	-318
Iron Ore	21,421	25,748	-4,327
Manganese Ore	3,061	5,485	-2,424
Tantalite	n.a.	n.a.	n.a.
Columbite	n.a.	n.a.	n.a.
Monazite	n.a.	n.a.	n.a.
Quartz	1,578	2,741	-1,163
Cocoa cakes	n.a.	n.a.	n.a.
Scheelite	1,859	5,773	-3,914
Magnetite	n.a.	n.a.	n.a.
Mica	303	347	-44
Zirconium	n.a.	n.a.	n.a.
Total	55,601	76,739	-21,138
Total Exports Shifted	111,380	150,889	-39,509
Total Exports	<u>1,550,028</u>	<u>1,732,280</u>	<u>-182,252</u>

Source: Ministry of Finance, Economic and Financial Statistical Service.

For Immediate Attention

EBS/55/33

Irving S. Friedman

CONFIDENTIAL

July 28, 1955

To: Members of the Executive Board

From: The Acting Secretary

Subject: Exchange System - Brazil

The attached communication from Brazil was transmitted by Mr. Paranagua to the Acting Managing Director this afternoon. The staff is preparing a brief paper containing a recommendation which will be circulated to the Executive Directors as soon as practicable.

Att: (1)

Translation

Lt INTERFUND OCTAVIO PARANAGUA
WASHINGTON DC

We ask approval Executive Board of International Monetary Fund for instruction we are issuing by which the following products are transferred to Category III Instruction 112:

Leaf tobacco; sawn pine wood (chips, shingles, quebradinhos, planks planed on one, two or more sides, boxes and unassembled crates of standard and unstandard sizes, "shorts and ends" also known as "madeiras curtas" that is pieces of any nonstandard width up to seven and three quarters feet in length).

In the fourth Category will be classified:

Finished pine (beams, flooring, broom sticks, solid and veneered frames, baseboards, tacos for the floor, moldings, thresholds; staves tops and bottoms for barrels, and unassembled barrels); cured skins and hides (raw materials for making shoes, upholstery, and other leathercrafts; other types of wood; carnauba wax; iron ore; manganese ore; tantalite; columbite; monazite; piezo-electric quartz; cocoa cakes; scheelite; magnezite; mica and zirconium.

Prudente de Moraes, Neto
Executive Director
Superintendency of Money and Credit



Office Memorandum

090010

1:25 PM EBS/55/33

TO : Mr. Ivar Rooth, Managing Director

FROM : O. Paranaguá *or!*

SUBJECT: Brazil - Exchange System



I have just received the following cable from Brazil.

As the Executive Board is beginning its Annual Recess, I think it would be advisable to have this matter communicated to the Board this afternoon.

Translation:

Lt INTERFUND OCTAVIO PARANAGUA
WASHINGTONDC

WE ASK APPROVAL EXECUTIVE BOARD OF INTERNATIONAL MONETARY FUND FOR INSTRUCTION WE ARE ISSUING BY WHICH THE FOLLOWING PRODUCTS ARE TRANSFERRED TO CATEGORY III INSTRUCTION 112:

LEAF TOBACCO; SAWN PINE WOOD (CHIPS, SHINGLES, QUEBRADINHOS, PLANKS PLAINED ON ONE, TWO OR MORE SIDES, BOXES AND UNASSEMBLED CRATES OF STANDARD AND UNSTANDARD SIZES, "SHORTS AND ENDS" ALSO KNOWN AS "MADEIRAS CURTAS" THAT IS PIECES OF ANY NONSTANDARD WIDTH UP TO SEVEN AND THREE QUARTERS FEET IN LENGTH).

IN THE FOURTH CATEGORY WILL BE CLASSIFIED:

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

FINISHED PINE (BEAMS, FLOORING, BROOM STICKS, SOLID AND VENEERED FRAMES, BASEBOARDS, TACOS FOR THE FLOOR, MOLDINGS, THRESHOLDS, STAVES TOPS AND BOTTOMS FOR BARRELS, AND UNASSEMBLED BARRELS); CURED SKINS AND HIDES (RAW MATERIALS FOR MAKING SHOES, UPHOLSTERY, AND OTHER LEATHERCRAFTS); OTHER TYPES OF WOOD; CARNAUBA WAX; IRON ORE; MANGANESE ORE; TANTALITE; COLUMBITE; MONAZITE; PIEZO-ELECTRIC QUARTZ; COCOA CAKES; SCHEELITE; MAGNEZITE; MICA AND ZIRCONIUM.

PRUDENTE de MORAES NETO
EXECUTIVE DIRECTOR
SUPERINTENDENCY OF MONEY AND CREDIT



Copy c/420 sum oc instructions

Received in Correspondence Section 7/29/55 at 6:45.

Copy of telegram received by Mr. Paranaguá Thursday morning, July 28, 1955.

LT INTERFUND OCTAVIO PARANAGUA
WASHINGTONDC

SOLICITAMOS PEDIR APROVACAO JUNTA DIRETORA FUNDO INSTRUCAO ESTAMOS
BAIXANDO PELAQUAL SERAO TRANSFERIDOS TERCEIRA CATEGORIA INSTRUCAO 112
SEGUINTE PRODUTOS:

FUMO FOLHAS VG PINHO SEMI BENEFICIADO ABREPARENTESIS SARRAFOS,
RIPAS, QUEBRADINHOS, TABOAS APLAINADAS DE UMA DUAS OU MAIS FACES,
CAIXAS E ENGRADADOS DESARMADOS NAS MEDIDAS CERTAS OU MULTIPLAS,
ABREASPAS SHORTS AND ENDS FECHASPAS TAMBEM CONHECIDAS COMO
MADEIRAS ABREASPAS CURTAS FECHASPAS ISTO EH PECAS QUALQUER
LARGURA NAO PADRONIZADAS ATE SETE PES ET TRESQUARTOS COMPRIMENTO
FECHAPARENTESIS

NA QUARTA CATEGORIA SERAO CLASSIFICADOS; PINHO BENEFICIADO ABREPARENTESIS
FORRO, SOALHO, CABOAS, VASSOURA TORNEADOS VG COMPENSADO LAMINADO
GUARINICOES VG RODAPES, TACOS PARA SOALHOS, MOLDURAS, BATENTES,
ADUELAS TAMPOS E FUNDOS PARA BORDALESAS, E BORDALESAS DESARMADAS
FECHAPARENTESIS COUROS E PELES CURTIDOS ABREPARENTESIS PRONTO
SEREM EMPREGADOS CONFECCAO SAPATOS, ESTOFAMENTOS E SEMELHANTES
FECHAPARENTESIS ARTEFATOS EM GERAL VG OUTRAS ESPECIES FLORESTAIS,
CERA CARNAUBA, MINERIO FERRO, MINERIO MANGANES, TANTALITA, COLUMBITA,
MONAZITA, QUARTZO PIEZO ELECTRICO, TORTA CACAU, SCHEELITA, MAGNEZITA,
MICA ET ZIRCONIO

PRUDENTE MORAES NETO
DIRETOR EXECUTIVO SUPERMOCRE

Irving S. Friedman

Mr. Lueck

July 12, 1955

Irving S. Friedman

Brazil -- Change in Regime Applicable to German
Agreement Currency

As indicated in EBS/55/28, the staff intends to prepare a paper on the recent change in effective export rates applicable to the Deutschemerk in the new Germany-Brazil payments agreement. For this purpose, it would be appreciated if you would kindly furnish the staff with information on the following points:

1. Whether the currency in the new agreement is transferable, and, if so, the scope of its transferability;
2. Whether the new agreement provides for credit facilities, and, if so, what they are;
3. Whether there are any commercial arrangements accompanying the new payments agreement, especially regarding re-exports;
4. Whether the free market in Germany for the Brazilian account dollar is being continued;
5. What arrangements have been made to clear Brazil's debit balance in the clearing account under the old agreement.

If the text of the new agreement is available, the staff would, of course, appreciate receiving a copy of it.

cc: Mr. Merwin
" Raj
" Brian Rose

Reply rec'd Aug. 3/55 - handed to Mr. Raj



Office Memorandum

TO : Mr. Irving S. Friedman

DATE: July 12, 1955

FROM : S.J. Raj *DR*

SUBJECT: BRAZIL - Change in regime applicable to German agreement currency.

With reference to Mr. Sacchetti's discussion with you yesterday on the action to be taken in regard to the above matter. I discussed the subject further with Messrs. Merwin and Brian Rose this morning. We have worked out a revised draft to be sent to Mr. Lueck. The new draft requests the actual text of the agreement entered into by Brazil with Germany. It also sharpens up some of the questions.

The revised draft, attached herewith, is for your approval.

cc.: Messrs. Merwin
Brian Rose

Draft
7/12/55

To: Mr. Lueck
From: Irving S. Friedman
Subject: Brazil - Change in regime applicable to German agreement
currency

As indicated in EBS/55/28 the staff intends to prepare a paper on the recent change in effective export rates applicable to the Deutschemark in the new Germany-Brazil payments agreement. For this purpose it would be appreciated if you would kindly furnish the staff with ~~the text of the new agreement and~~ information on the following points:

- 1) Whether the currency in the new agreement is transferable and, if so, the scope of its transferability;
- 2) Whether the new agreement provides for credit facilities, and if so what they are;
- 3) Whether there are any commercial arrangements accompanying the new payments agreement, especially regarding re-exports;
- 4) Whether the free market in Germany for the Brazilian account dollar is being continued;
- 5) What arrangements have been made to clear Brazil's debit balance in the clearing account under the old agreement.

If ~~the~~ the text of the new agreement is available, the staff would, of course, appreciate having a copy of it.

Brazil

The Managing Director

July 11, 1955

Irving S. Friedman

Brazil - Changes in Classification of Export Commodities

In connection with the suggestion to give the Brazilian Government advance approval for shifts of minor export commodities from a "lower" category to a "higher" category, I would like to present the following considerations.

Recent newspaper reports indicate that there is no commodity left in Category II except coffee, which would mean that sawn pine wood, leaf tobacco, carnauba wax and bananas are either in Category III or in Category IV. Nothing is said in these reports as to which commodities are presently included in Category III, but it is likely that some of those which were until recently in Category III have been shifted to Category IV. Should this be the case, only four or five commodities, in addition to cotton and cocoa, may be left in Category III. In view of these possible changes, I am wondering whether it is appropriate to establish an arrangement of the type contemplated since it would have a rather narrow scope. Moreover, to give advance approval shortly after Brazil has failed to consult on the reported shifts, is a step which could be interpreted in a sense unfavorable to the Fund.

In view of the fact that the above considerations are based only on newspaper reports, I would suggest, as a first step, asking Mr. Paranagua to provide the staff with information as to the present composition of the export categories.

cc: Mr. Cochran ✓

INTERNATIONAL MONETARY FUND

July 7, 1955

Mr. Del Canto

Do you see any objection
to my sending this note to
Paranagua?

ISF

W.S.
K

Sent July 8

Irving S. Friedman

Mr. Paranagua

July 7, 1955

Irving S. Friedman

Brazil - Change in regime applicable to German agreement currency

As indicated in EBS/55/28 the staff intends to prepare a paper on the recent change in effective export rates applicable to the new German currency in the Germany-Brazil payments agreement. For this purpose it would be appreciated if you would kindly furnish the staff with information on the following questions:

- 1) In case the new currency is transferable, what is the scope of the transferability? What rules have been established on the Brazilian side for prescription of currency for incoming and outgoing payments?
- 2) Does the regime for currencies other than the dollar, pounds sterling and Deutschemarks remain unchanged? Is any change contemplated in regard to those other currencies?



Office Memorandum

TO : Mr. Irving S. Friedman

DATE: July 7, 1955

FROM : J.S. Raj^{DB} & U.Sacchetti^{U.S.}

SUBJECT: Brazil - Change in Regime Applicable to German Agreement Currency

As desired by you, we have prepared three drafts in connection with the above change, including the covering memo from the Acting Secretary to the Executive Board indicating that the staff will prepare a paper on receipt of further information.

We have discussed the suggested line of action with Mr. Hexner. He agreed that the Brazilian change constituted a change in multiple currency practices. However, he felt that from the administrative point of view, since Brazil has not specifically asked for Fund approval, the change appeared to be one which should be acted upon with a minimum of delay. For this reason he thought that the minor changes procedure could be applied without awaiting further information. However, he said that if the Exchange Restrictions Department felt that further information was essential in order to produce a satisfactory paper, he would have no objection to this course of action being followed.

ATTACHMENTS

Carbon copy in e/Brazil/1110
(this Memo only)

Draft
7/7/55

FROM: The Acting Secretary
To: Members of the Executive Board
Subject: Brazil - Change in regime applicable to German agreement currency

The attached cable has been received from Brazil and is circulated for information of the Executive Board.

The staff is trying to obtain some further information on this change in Brazil's multiple currency practices and its implications and will prepare a paper on the subject as soon as possible, which will include a draft decision for the consideration of the Executive Board.

DRAFT
7/7/55

To: Mr. Donner
From: Irving S. Friedman
Subject: Brazil - Change in regime applicable to German agreement currency

As indicated in EBS/55/ the staff intends to prepare a paper on the recent change in effective export rates applicable to the new German currency in the Germany-Brazil payments agreement. For this purpose it would be appreciated if you would kindly furnish the staff with information on the following questions:

- 1) Whether the new agreement currency is transferable and, if so, the scope of its transferability;
- 2) Whether there are any commercial arrangements accompanying the new payments agreement, especially re-exports;
- 3) Whether the free market in Germany for the Brazilian cruzeiro has been discontinued;
- 4) What arrangements have been made to clear Brazil's debit balance in the clearing account under the old agreement.

DRAFT
7/7/55

To: Mr. Paranagua
From: Irving S. Friedman
Subject: Brazil - Change in regime applicable to German agreement currency

As indicated in EBS/55/ the staff intends to prepare a paper on the recent change in effective export rates applicable to the new German currency in the Germany-Brazil payments agreement. For this purpose it would be appreciated if you would kindly furnish the staff with information on the following questions:

- 1) In case the new currency is transferable, what is the scope of the transferability? What rules have been established on the Brazilian side for prescription of currency for incoming and outgoing payments?
- 2) Whether the Brazilian Government is currently negotiating with other countries to reach an arrangement similar to that with W. Germany?

EBS/55/29

CONFIDENTIAL

July 7, 1955

To: Members of the Executive Board

From: The Acting Secretary

Subject: Brazil - Coffee Exchange Warranty

The Managing Director has received the attached communication dated July 6, 1955 from Mr. Paranagua, which is circulated for the information of the Executive Board.

Att:(1)

July 6, 1955

To: Mr. Ivar Rooth, Managing Director
From: O. Paranaguá
Subject: Exchange System - Brazil

The following cable has just been received from Rio de Janeiro.

Translation

Please inform Board of Executive Directors that an "Instruction" is being issued which revokes Item 2 of "Instruction Number 114", but the term of warranty for sales registered until the publication of the Instruction in the "Diario Oficial" will be observed.

Prudente Moraes Neto
Superintendency of Money and Credit

I would like to inform you that item 2 of Instruction No. 114 reads as follows:

"2. Should an increase in the bonuses referred to in item 1 above occur within 45 days of any registered sale, and cause the buyer a price difference in foreign currency, said difference shall be compensated entirely in the same currency in which the purchase was made."

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

EBS/55/28

CONFIDENTIAL

July 7, 1955

To: Members of the Executive Board

From: The Acting Secretary

Subject: Brazil - Change in Regime Applicable to German
Agreement Currency

The Managing Director has received the attached communication dated July 6, 1955 from Mr. Paranagua. This is circulated for the information of the Executive Board.

The staff is trying to obtain some further information on this change and its implications and will prepare a paper on the subject as soon as possible, including the staff's recommendation.

Att:(1)

July 6, 1955

To: Mr. Ivar Rooth, Managing Director
From: O. Paranaguá
Subject: Exchange System - Brazil

I am pleased to inform you of the content of a cable which I have just received from Rio de Janeiro.

Translation

Please inform Board of Executive Directors that, in accordance with the agreement signed with Federal Republic of Germany, the Council of the Superintendency of Money and Credit decided to give "German Dollar-Agreement" and new currency of the agreement "Deutschmark" same treatment and same bonus given to US dollar and sterling pound. The new agreement aims at a simplification of the exchange system and at multilateral payments according to the objectives of the Fund Agreement.

Prudente de Moraes neto
Superintendency of Money and Credit



Office Memorandum

EB5/55/28

089444

TO : Mr. Ivar Rooth, Managing Director

FROM : O. Paranaguá

SUBJECT : Exchange System - Brazil

DATE: July 6, 1955

Prudente Moraes

I am pleased to inform you of the content of a cable which I have just received from Rio de Janeiro.

INTERFUND FOR OCTAVIO PARANAGUA

WASHINGTONDC

COMUNIQUE JUNTA DIRETORA FUNDO QUE FORMA AJUSTE FIRMADO REPUBLICA
 FEDERAL ALEMANHA CONSELHO SUMOC RESOLVEU ESTENDER DOLARCONVENIO
 ALEMAO ET NOVA MOEDA AJUSTE DEUTSCHMARK MESMO TRATAMENTO ET BONIFI-
 CACOES IDENTICAS CONCEDIDAS EXPORTACOES DOLAR NORTEAMERICANO ET
 LIBRA PT NOVO ACORDO TENDE SIMPLIFICACAO SISTEMA CAMBIAL ET
 PAGAMENTOS MULTILATERAIS DENTRO ESPIRITO CONVENCAO FUNDO

PRUDENTE MORAES NETO SUPERMOCRE

(Translation)

PLEASE INFORM BOARD OF EXECUTIVE DIRECTORS THAT, IN ACCORDANCE WITH
 THE AGREEMENT SIGNED WITH FEDERAL REPUBLIC OF GERMANY, THE COUNCIL
 OF THE SUPERINTENDENCY OF MONEY AND CREDIT DECIDED TO GIVE "GERMAN
 DOLLAR-AGREEMENT" AND NEW CURRENCY OF THE AGREEMENT "DEUTSCHMARK"
 SAME TREATMENT AND SAME BONUS GIVEN TO US DOLLAR AND STERLING POUND.
 THE NEW AGREEMENT AIMS AT A SIMPLIFICATION OF THE EXCHANGE SYSTEM
 AND AT MULTILATERAL PAYMENTS ACCORDING TO THE OBJECTIVES OF THE
 FUND AGREEMENT.

PRUDENTE DE MORAIS NETO
 SUPERINTENDENCY OF MONEY AND CREDIT

RECEIVED
MAIL ROOM

JUL 6 3 31 PM 1955

INTERNATIONAL
MONETARY FUND

Orig: WHD
 cc: Mg. Dir.
 Dep. Mg. Dir.
 ERD
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EBS/55/29

Mr. Ivar Rooth, Managing Director

July 6, 1955

O. Paranaguá

Exchange System - Brazil

The following cable has just been received from Rio de Janeiro.

INTERFUND FOR OCTAVIO PARANAGUA

WASHINGTONDC

COMUNIQUE JUNTA DIRETORA FUNDO ESTAMOS BAIXANDO INSTRUCAO PELAQUAL FICA

REVOGADO ITEM DOIS INSTRUCAO 114, RESPEITADO PRAZO GARANTIA DECLARACOES

VENDAS EFETUADAS ATE DATA PUBLICACAO DIARIO OFICIAL

PRUDENTE MORAES NETO SUPERMOCRE

(Translation)

PLEASE INFORM BOARD OF EXECUTIVE DIRECTORS THAT AN "INSTRUCTION" IS BEING ISSUED WHICH REVOKES ITEM 2 OF "INSTRUCTION NUMBER 114", BUT THE TERM OF WARRANTY FOR SALES REGISTERED UNTIL THE PUBLICATION OF THE INSTRUCTION IN THE "DIARIO OFICIAL" WILL BE OBSERVED.

PRUDENTE MORAES NETO

SUPERINTENDENCY OF MONEY AND CREDIT

I would like to inform you that item 2 of Instruction No. 114 reads as follows:

"2. Should an increase in the bonuses referred to in item 1 above occur within 45 days of any registered sale, and cause the buyer a price difference in foreign currency, said difference shall be compensated entirely in the same currency in which the purchase was made."

Mr. Ervin Hexner

June 28, 1955

Hans Aufrecht

Brazil - Authorization to maintain or introduce restrictions
on multiple currency practices - 1946.

This memorandum deals with certain practices and/or measures which were maintained, introduced, or discontinued by Brazil in the course of 1946.

1. Co-existence of official and free rate from January to July 1946.

It appears that from January to July 1946 Brazil's multiple rate pattern was as follows:

Official Rate: 16.50 cruzeiros per U.S. dollar
Selling Rate (Free): 18.72 cruzeiros per U.S. dollar
Buying Rate (Free) : 18.38 cruzeiros per U.S. dollar

The spread between the official rate on the one hand, and the selling and buying rate on the other, constituted a multiple currency practice.

The official rate of 16.50 was discontinued in July 1946.

On February 1, 1947, the Brazilian Government notified the Fund that it intended to avail itself of the transitional arrangements in Section 2 of Article XIV of the Fund Agreement. Assuming that this declaration has retroactive effect, i.e., that it is effective as of January 14, 1946 (the date Brazil's membership in the Fund became effective), it is concluded that the above mentioned multiple currency practices were maintained by Brazil under Article XIV. This conclusion is based, inter alia on the last sentence of Article VIII, Section 3 of the Fund Agreement which reads:

"If such arrangements and practices are engaged in at the date when this Agreement enters into force the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 4 of that Article shall apply."

(underlining added)

2. Compulsory purchase of bonds.

Article 1 of Decree - Law No. 9.524 - July 26, 1946 (effective 30 days after July 27, 1946, the date of its publication in the Diario Oficial) provides:

Exporters are hereby obliged to invest in notes of the National Treasury an amount corresponding to 20% (twenty per cent) of the value, in cruzeiros, of the sales of exchange effected by them.

In accordance with Article 5 of the Decree the above mentioned Treasury notes were redeemable after 120 days; the notes were interest bearing (3 per cent per year). The notes were non-negotiable.

It appears that the economic effect of this measure is similar to that of a penalty buying rate to the extent that it precludes the exporter from using 20% of his export proceeds for about four months, in other words, he is restricted in his making of payments for exports.

As evidenced by Document No. 22 of the Committee on Spreads and Multiple Currency Practices, p. 34, the Fund did not consider the provisions of Decree-Law No. 9.524 - July 26, 1946 as constituting a multiple currency practice. *

3. Decree No. 24.038 of March 26, 1934.

It appears that Decree No. 24.038 of March 26, 1934 has remained in force from the day of its publication in the Diario Oficial. Under Article 1 of this Decree importers of merchandise are required, at the maturity of sight or time documents expressed in foreign exchange, to deposit the local currency equivalent of these instruments with "the bank holding them at the rate of exchange of the day of maturity of these documents". Article 5 of the same Decree provides that "all contractual obligations in foreign currencies arising from the purchase of imported merchandise are accorded the same treatment as is accorded to the documents referred to in Article 1 of this Decree."

Under Article 3 of the Decree the importer bears the difference between the rate of exchange at which the deposit was made and that of the closing of exchange [fechamento de cambial].**

Decree No. 24.038 is of particular significance if, e.g., the following conditions are met:

- (1) If the closing of exchange does not coincide with the maturity of the document; and/or
- (2) If there is a devaluation of the cruzeiro in terms of foreign currency between the date of the local currency deposit (maturity of the document) and the date of the closing of exchange, since in this case the devaluation risk is to be borne by the importer.

* See on this point ibid., "The practice is obviously a sort of restriction on exports but is not to be considered to be a multiple currency practice..."

** For a discussion of this clause see Memorandum from Mr. Aufricht (on certain aspects of Decree No. 24.038 of March 26, 1934) p. 2.

As to whether or not in 1946 the closing of exchange coincided in practice with the maturity, e.g., of a sight document is a question of fact which I am unable to determine on the basis of the information at my disposal.

Moreover, it could not be ascertained as to whether any Brazilian importer was adversely affected by the above mentioned discontinuance of the official rate of 16.50 in July 1946. As evidenced by International Financial Statistics (January 1953) p. 16, the free selling rate of the cruzeiro remained at 18.72 in 1946 and 1947. On December 18, 1947 the Fund approved a 5% exchange tax.

Finally, as far as I could ascertain the Fund has never taken any affirmative action on any of the above mentioned practices or measures.

Mr. Ervin P. Hexner

June 27, 1955

Hans Aufrecht

Brazil--Restrictions or Multiple Currency Practices in Effect in 1946

This note discusses the question of restrictions or multiple currency practices in effect in Brazil in 1946 by reference to (1) compulsory purchase of bonds; (2) co-existence of official rate (16.50 cruzeiros per U. S. dollar) with buying rate (18.38) and selling rate (18.72).

1. Compulsory Purchase of Bonds. The Final Report of the Committee on Spreads and Multiple Currency Practices (Document No. 22 of August 5, 1947) discusses the compulsory subscription to treasury notes imposed on exporters by Decree-Law 9542 [9524(?)] of July [26,] 1946 as follows:

II. Practices

.....

1.) Compulsory purchase of bonds

By virtue of Decree-Law 9542 of July 1946, all exporters have to accept Treasury Notes for 20 per cent of the f. o. b. value of their exports in cruzeiros, excluding freight and insurance. These notes are drawn for 120 days and yield 3 per cent interest per year. Principal and interest are redeemed at the end of the four month period but they cannot be sold before maturity. (Op. cit., p. 33)

.....

III. Purposes

1.) Compulsory subscription of bonds

The practice is part of the anti-inflationary drive and aims at sterilization of export proceeds. Works analogously to an open market operation and can also be connoted as a compulsory short-term loan to the treasury. (Ibid., pp. 33-34)

IV. Findings

1.) Compulsory subscription to bonds

By law the bonds cannot be sold in the market and it was not ascertained whether any quotations of such bonds exist. The practice is obviously a sort of restriction on exports but is not considered to be a multiple currency practice as no rate in which it might result is ascertainable. It is regarded as a restriction sui generis which is kin to the temporary blocking of export proceeds which is not unfamiliar in various exchange restriction systems. It does not seem to be particularly harmful to the exporter although the rate of interest is lower than on

756 Brazil

other government bonds (which bear 6% interest) and considerably lower than the rate of interest charged by banks to borrowers. It is, however, unlikely to be a cause of shortage of funds to exporters under present conditions of abundance of money in Brazil. It is also a restriction which belongs to the rather innocuous ones from the point of view of the effect on international relations. On the other hand, it is true that no justification for it exists, in view of its nature, under the balance of payments. No strong case either can be made for it on account of the anti-inflationary policy as at the end of 1946 the total outstanding of these bonds amounted to slightly more than 1.5% of the money supply.

It is understood that this practice will disappear under the new legislation contemplated by the government and no action seems to be necessary on the part of the Fund. (Ibid., pp. 34-35)

2. Co-Existence of Official Rate (16.50) with Buying Rate (18.38) and Selling Rate (18.72)

The International Financial Statistics (vol. 6, No. 1, January 1953) lists for 1946 the following rates:

<u>Official:</u>	16.50 cruzeiros per U. S. dollar
<u>Selling rate:</u> (Free)	18.72 cruzeiros per U. S. dollar
<u>Buying rate:</u> (Free)	18.38 cruzeiros per U. S. dollar

According to information which is available in the Fund, beginning with July 1946 the buying and selling rates of 18.38 and 18.72 cruzeiros respectively were applicable to all transactions.

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

For Immediate Attention

**FOR
AGENDA**

EBS/55/25
Supplement 3

CONFIDENTIAL

June 27, 1955

To: Members of the Executive Board

From: The Acting Secretary

Subject: Exchange System - Brazil

Attached is a memorandum by the staff, based on information available, regarding the communication from the Government of Brazil informing the Fund of its intention to shift Brazil nuts and sisal to Category IV (EBS/55/25, Sup. 2).

This matter, together with the report by the staff on the Article XIV consultations with Brazil, has been placed on the agenda for Meeting 55/44, Wednesday, June 29.

Att:(1)

INTERNATIONAL MONETARY FUND

Brazil: Change of Export Rates for Brazil Nuts and Sisal

Prepared by Western Hemisphere Department
and Exchange Restrictions Department

Approved by Irving S. Friedman and Jorge del Canto

June 27, 1955

By a cable of June 24, 1955, the Brazilian Government has informed the Fund of its intention to shift Brazil nuts and sisal to Category IV of the present classification of export products (see EBS/55/25, Sup.2).

The significant change involved in this measure is that the effective export rates applicable to the two commodities mentioned above will be raised as indicated below.

According to the available information, the shift for Brazil nuts is from Category II to Category IV. The new export rates will be Cr\$50.06 per US\$1 for export proceeds in convertible currencies and the pound sterling and presumably Cr\$48.03 for export proceeds in other currencies. These compare with the present rates of Cr\$37.06 and Cr\$35.55, respectively. The increase in effective rates is about 35 per cent for all currencies. In the case of sisal, the shift is from Category III to Category IV, involving a change of effective export rates from Cr\$43.06 for convertible currencies and the pound sterling and presumably Cr\$41.31 for other currencies to Cr\$50.06 and Cr\$48.03, respectively. The increase in effective rates is about 16 per cent.

The percentage of discriminatory differential in favor of export proceeds in convertible currencies and the pound sterling appears to remain unchanged for both commodities at about 4 per cent.

The following data are available from Brazilian official foreign trade statistics as to the value of Brazilian exports of the commodities in question during 1953 and 1954.

Total exports of Brazil nuts (shelled and unshelled) were \$11.2 million in 1953 and \$12.6 million in 1954, representing 0.72 per cent and 0.81 per cent of total export trade, respectively. Exports of sisal amounted to \$3.9 million in 1953 and \$9.1 million in 1954, representing 0.26 per cent and 0.58 per cent of total export trade, respectively.

During 1953, about 64 per cent of exports of Brazil nuts went to the United States and about 28 per cent to the United Kingdom. In the same year, about 54 per cent of exports of sisal went to the United States and about 27 per cent to West Germany.

No data are available on recent trends of both volume of exports and prices of the commodities in question.

As stated in EBS/55/25, Sup. 2, the staff proposes that the Board consider this matter on Wednesday June 29, along with the Article XIV Consultations Report on Brazil.

For Immediate Attention

EBS/55/25
Supplement 2

CONFIDENTIAL

June 25, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: Exchange System - Brazil

The following communication from Brazil was transmitted to the Fund after the close of business on Friday, June 24. As it does not appear practicable to obtain immediate Fund approval, the staff proposes that the Board consider this matter on Wednesday, June 29, along with the Article XIV consultations report on Brazil.

(Translation)

In addition to ours of yesterday we communicate that besides the change of cocoa already mentioned, Brazil Nuts and Sisal will be transferred to the Fourth (IV) Category.

Prudente Moraes Neto
Executive Director

1) sig. changes
2) reports
3) - note - Egypt

Yamamoto

I N T E R N A T I O N A L M O N E T A R Y F U N D

Executive Board Decision No. 436-(55/43)

Subject: BRAZIL - EXCHANGE SYSTEM

1. Brazil has informed the Fund that the bonuses to be paid to cocoa beans shall be the same as those applying to exports of products listed in Category III. Exports in Category III receive fixed bonuses of 24.70 cruzeiros in convertible currency and pounds sterling, and 22.95 cruzeiros in other currencies.

2. The Fund does not object to this shift of cocoa to Category III. The Fund understands that the bonus for cocoa exports in convertible currencies and pounds sterling continues to differ from the bonus for such exports in other currencies. Therefore, the Fund, in accordance with its decision of January 28, 1955, does not take action on this aspect of the proposed shift at this time.

3. The Fund intends to review the Brazilian restrictive system and related matters during the forthcoming Article XIV consultations scheduled for June 29, 1955.

The foregoing is the text of a decision of the Executive Board taken at Meeting 55/43, June 24, 1955.

Roman L. Horne,
Acting Secretary

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

For Immediate Attention

EBS/55/25
Supplement 1

CONFIDENTIAL

June 23, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: Exchange System - Brazil

Attached are the staff's recommendations regarding the proposal from Brazil (EBS/55/25). This subject has been placed on the agenda for Meeting 55/43, Friday, June 24.

Att:(1)

INTERNATIONAL MONETARY FUND

BRAZIL: Proposal to Change the Export Rate for Cocoa Beans

Prepared by Western Hemisphere and Exchange Restrictions Departments

(in consultation with the Legal Department)

Approved by Irving S. Friedman and Jorge del Canto

June 23, 1955

I. Brazil's Proposal

A cable dated June 23, 1955, from the Superintendency of Money and Credit, Brazil (SUMOC) requests the Fund's approval for the transfer of cocoa beans from category II to category III of the present export categories (see EBS/55/25). The cable states that the proposed measure is one of the steps aimed at simplification of exchange rates, in line with a previous similar change relating to cotton exports (see EBS/55/21).

II. Evaluation of the Proposal

The significant change involved in the proposed measures is that the effective export rates applicable to cocoa beans would be Cr\$ 43.06 per US\$1.00, for convertible currencies and the pound sterling, and presumably Cr\$ 41.31 per US\$1.00 for all other currencies, instead of the present effective rates of Cr\$ 37.06 and Cr\$ 35.55 prevailing so far. This represents an increase in the effective rates of about 11.6 per cent for all currencies. The percentage of discriminatory differential in favor of export proceeds in convertible currencies and the pound sterling presumably remains unchanged at about 4.06.

Other products included in Category III are raw cotton, piassava, castor seeds, soya beans, hides and skins, sisal, cocoa cake, and paste. All other products -- except coffee, sawn pine wood, carnauba wax, Brazil nuts, leaf tobacco and bananas, which receive Category II effective rates -- are classified in Category IV, for which the effective rates are Cr\$59.06 and Cr\$48.03.

Cocoa beans constitute the third most important export product of Brazil (9 per cent of total exports value in 1954) being exported primarily to West European countries and the U.S. In 1954, Brazil earned the equivalent of \$136 million out of cocoa bean exports, of which \$33 million was in convertible currencies and \$103 in inconvertible currencies. Figures of exports in 1955 are available only for January and show that

the volume of exports of cocoa beans in that month was only 3,579 tons, as against 4,869 tons in January, 1954.

Cocoa prices in the main consuming countries have moved in 1955 as indicated in the table below:-

(\$ per 100 lbs.)

	<u>U.S.</u>	<u>U.K.</u>
Average in 1954	57.74	55.23
January, 1955	48.80	50.94
February, 1955	46.80	45.53
March, 1955	40.00	36.31
April, 1955	37.50	36.53

Later information is not readily available, but it is known that during the current week, cocoa future prices in the New York market have shown a declining trend, attributed to such factors as the easiness of the London market, increased sales by the Dominican Republic, etc.

It is known that for some time cocoa producers have been requesting and pressing the Government for a readjustment of the exchange bonus being paid to them, and for the elimination of the favorable treatment for manufactured cocoa. After February 5, 1955 - when coffee was given a more favorable treatment - and principally after May 6, when cotton was shifted to Category III, this pressure grew in importance.

III. Recommendation

It is noted that the Article XIV consultations with Brazil are scheduled for Board consideration on June 29. At that time the entire restrictive system of Brazil as of that date will be reviewed by the Fund. It is understood that the Brazilian authorities desire Fund action by June 24 on the proposed shift of cocoa from Category II to Category III. Therefore, the following recommendation is proposed for immediate consideration by the Executive Board:

1. Brazil has informed the Fund that the bonuses to be paid to cocoa beans shall be the same as those applying to exports of products listed in Category III. Exports in Category III receive fixed bonuses of 24.70 cruzeiros in convertible currency and pounds sterling, and 22.95 cruzeiros in other currencies.

2. The Fund does not object to this shift of cocoa to Category III. The Fund understands that the bonus for cocoa exports in convertible currencies and pounds sterling continues to differ from the bonus for such exports in other currencies. Therefore, the Fund, in accordance with its decision of January 28, 1955, does not take action on this aspect of the proposed shift at this time.

3. The Fund intends to review the Brazilian restrictive system and related matters during the forthcoming Article XIV Consultations scheduled for June 29, 1955.

For Immediate Attention

EBS/55/25

CONFIDENTIAL

June 23, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: Exchange System - Brazil

Mr. Paranagua has transmitted to the Managing Director this afternoon the following cable from Brazil with the request that the matter be placed on the agenda for Meeting 55/43, Friday, June 24. A brief staff paper will be circulated as soon as possible.

Interfund for Octavio Paranagua

Translation

Please request approval of the Executive Board of the International Monetary Fund for the instruction being issued which transfers cocoa beans from Category II to Category III of Instruction 112. This is one of the measures referred to in my cable dated May 5, aimed at simplification of exchange rates under common objectives Brazilian Government and International Monetary Fund.

Prudente de Moraes
Executive Director

*Superintendência da Moeda e do Crédito*

Rio de Janeiro, 16 MAI 1955

Cta. DE-DIBAP-147/55

Exchange Restrictions Department of
INTERNATIONAL MONETARY FUND
1818 H St, N.W.
Washington D.C.
U.S.A.

Dear Mr. Friedman,

In attention to a request from Mr. Sacchetti when of his stay with us, we are pleased to enclose herewith 3 sets of tables on Purchases and Exchange auctioned for the months of December 1954 and January and February 1955.

We remain,

Yours sincerely,

DIVISÃO DE BALANÇO DE PAGAMENTOS

Sydney Alberto Lattini
- Chefe -

Orig. & Encl: ERD
cc of letter: Mr. Paranagua
WHD
Mr. Kalivoda

4 Enclosures
/YC

EBS/55/21

CONFIDENTIAL

May 6, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: Brazil Exchange System

The Managing Director has received the following communication from Mr. Paranagua. Unless an Executive Director requests that this matter be brought to the Board as a special agenda item, the staff will deal with it in the Article XIV Consultations Report, which is expected to be ready for circulation in the near future.

I received this morning the following cable from the Superintendency of Money and Credit, Rio de Janeiro, Brazil:

We ask you to request Fund Board approval instruction we are issuing according to which cotton will be transferred from second to third category of Instruction 112. This and other steps will be taken towards simplification exchange rates in accordance common objectives Government and Monetary Fund.

Octavio Bulhoes,
Executive Director

If it is determined that this change requires Board approval I should appreciate your putting it on an early agenda.

Mr. Jorge Del Canto

May 6, 1955

A. Foz and J. J. Thackara

Brazil--Change in Exchange Rates for Cotton and Cocoa

During 1954 Brazil had a serious imbalance position in its balance of payments, particularly in U.S. dollars, primarily as a result of a decline in proceeds from coffee exports.

In 1954 total exports were at practically the same level as 1953, but imports were at a higher level. Trade with Europe showed an increase in both exports and imports, while exports in convertible currencies were reduced.

The most significant factors in the increased exports to the non-dollar area were the substantial increases in the value of cotton (\$220 million in 1954, compared with \$99 million in 1953), cocoa (\$102 million in 1954 and \$51 million in 1953), and other minor exports (\$191 million in 1954 and \$87 million in 1953), coffee exports being kept at somewhat the same level in spite of a reduction in the volume of exports (about \$449 million in 1954, compared with about \$435 million in 1953).

This very high level of exports represents not only the benefit from higher international prices prevailing during 1954 but also an increased volume of exports that was made possible by the incentive of a more devalued rate of exchange applicable to those products.

During 1954, until August, products other than coffee were receiving an export bonus of Cr\$10.00 per U.S. dollar, or its equivalent. On August 16, 1954, a further incentive was given by the provision that this Cr\$10 bonus would apply to only 80 per cent of the value of exports and that on the remaining 20 per cent a premium equal to the difference between the official rate of exchange and the average free market rate would be paid.

More recently, on January 14, 1955, Brazil increased the number of export bonuses from two to four and classified export products into four categories. A new feature was also introduced, namely, that a less favorable bonus would apply to exports made in inconvertible currencies, except for exports in pounds sterling, which were treated the same as for dollar exports.

In fact, this discrimination was not a new feature. Since August 16 there had been a small difference in effective exchange proceeds, due to the 20 per cent quotas that were paid at the free market rate. In reality, this new measure has resulted in a reduction of effective rates and the disappearance of discrimination between any two inconvertible currencies (other than pounds sterling).

INFORMATION COPY

Raw cotton and cocoa beans were both classified in the second category and were receiving an effective exchange rate of Cr\$37.06 for dollar and pound sterling exports and Cr\$35.55 for other currency exports.

It appears that the continuance of the inflationary spiral in Brazil, perhaps more accentuated in the second part of the year when the new minimum wage law came into effect, has to a certain extent reduced, due to increased costs of production, the stimulus for exportation of those products given by the above mentioned increased bonus. However, in accordance with latest reports from Brazil, the volume of stocks of cotton continues to decrease. By the end of February stocks amounted to about 131,548 metric tons. On March 26 they have been reduced to 26,059 metric tons. No comparable information is available for cocoa. The harvesting of the 1954/55 cotton crop started this month, and in accordance with nonofficial estimates it is expected to be slightly higher than the 1953/54 crop, when 450,000 tons were harvested.

No detailed information is available, but it is known that for some time both cotton and cocoa producers have been requesting and pressing the Government for a readjustment of the exchange bonus being paid to them. This pressure grew in importance after last February 5, when the bonus paid on exports of the first category (coffee) was raised to the level of the second category.

As pointed out before, Brazilian exports of cotton and cocoa are primarily to the non-dollar area. Tables showing the percentage of total trade and the main importers of these two products are attached.

It has now been reported that on May 4, 1954, cotton and cocoa were shifted from export Category II to Category III. This represents a depreciation of some 16 per cent. The effective rates for cotton and cocoa exports are now Cr\$43.06 in the case of convertible currencies and pounds sterling and Cr\$41.31 per dollar for other currencies.

Brazil: Effective Export Rates

(In cruzeiros per dollar)

	Convertible currencies and pounds sterling	Inconvertible currencies
First Category--no exports	31.50 (3.14)	30.22 (11.86)
Second Category--coffee, sawn pine and wood, carnauba wax, Brazil nuts, leaf tobacco, bananas	37.06 (18.70)	35.55 (17.19)
Third Category--raw cotton, cocoa beans, cocoa cake and paste, castor seeds, soya beans, hides and skins, sisal, piassava	43.06 (24.70)	41.31 (22.95)
Fourth Category--other products not included in first three categories	50.06 (31.70)	48.03 (29.67)

Cotton is the second most important export product, and cocoa the third most important. The relative importance of these two commodities, both with relation to the total of exports and with relation to monetary area, is shown in the table below.

Brazil: Exports--Principal Commodities
by Currency Area

(In millions of dollars)

Products	1953		1954	
	Convertible currencies	Inconvertible currencies	Convertible currencies	Inconvertible currencies
Coffee	655.5	434.7	499.3	448.8
Cotton	2.6	99.2	3.1	220.0
Cocoa	24.7	50.6	33.2	102.4
Other	185.4	86.6	64.3	190.7
Total	868.2	671.1	599.9	961.9

671.1
961.9
1,633.0

Brazil: Exports by Principal Commodities

(In millions of cruzeiros)

	Coffee		Cotton		Cocoa		Other		Total
	Value	% of Total	Value	% of Total	Value	% of Total	Value	% of Total	
1950	15,908	64	1,936	8	1,446	6	5,623	22	24,913
1951	19,448	60	3,823	12	1,276	4	7,967	24	32,514
1952	19,213	74	640	2	763	3	5,449	21	26,065
1953	21,696	68	2,238	7	1,532	5	6,581	20	32,047
1954 (thru Nov)	24,813	61	6,480	14	4,139	9	7,536	16	42,968
Dec.	21,822	57	5,917	15	3,827	10	6,751	18	38,317

Source: Relatório Banco do Brasil, Relatório, 1953.

84

Handwritten calculations:

$$\begin{array}{r}
 24813 \\
 6480 \\
 4139 \\
 \hline
 35432 \\
 42968 \\
 \hline
 75386 \\
 1
 \end{array}$$

Brazil: Exports of Cotton, by Principal Countries

(In millions of cruzeiros)

	1950	1951	1952	1953
Great Britain	769.4	1,490.2	.7	553.1
Germany	46.5	374.3	74.8	328.1
France	284.8	541.6	186.7	195.6
Japan	192.0	256.3	224.3	359.2
Other	<u>643.4</u>	<u>1,160.3</u>	<u>153.4</u>	<u>802.4</u>
Total	1,936.1	3,822.7	639.9	2,238.4

Source: Anuario Estatístico do Brasil, 1952, 1953 and 1954.

Brazil: Exports of Cocoa, by Principal Countries

(In millions of cruzeiros)

	1950	1951	1952	1953
Germany	22.8	113.4	70.3	585.0
Great Britain	213.0	86.5	7.6	59.4
Holland	119.1	99.7	75.8	29.4
Italy	54.4	77.6	39.9	67.3
Argentina	53.3	92.8	69.0	136.4
United States	758.6	649.8	403.3	498.5
Other	<u>224.6</u>	<u>156.0</u>	<u>97.2</u>	<u>156.5</u>
Total	1,445.8	1,275.8	763.1	1,532.5

Source: Anuario Estatístico do Brasil, 1952, 1953 and 1954.



Office Memorandum

TO : Mr. Ivar Rooth, Managing Director
FROM : O. Paranaguá *or*
SUBJECT : Brazil Exchange System.

DATE: May 6, 1955

file
3 mail

I received this morning the following cable from the Superintendency of Money and Credit, Rio de Janeiro, Brazil:

WE ASK YOU TO REQUEST FUND BOARD APPROVAL INSTRUCTION WE ARE ISSUING ACCORDING TO WHICH COTTON WILL BE TRANSFERRED FROM SECOND TO THIRD CATEGORY OF INSTRUCTION 112 STOP THIS AND OTHER STEPS WILL BE TAKEN TOWARDS SIMPLIFICATION EXCHANGE RATES IN ACCORDANCE COMMON OBJECTIVES GOVERNMENT AND MONETARY FUND STOP

OCTAVIO BULHOES, EXECUTIVE DIRECTOR

If it is determined that this change requires Board approval I should appreciate your putting it on an early agenda.

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

Original Text of cable received by Mr. Paranaguá on May 6, 1955.

AW796 RIX294R RIO 49 5 724P

INTERFUND FOR OCTAVIO PARANAGUA WASHINGTONDC

SOLICITAMOS PEDIR APROVACAO JUNTA DIRETORA FUNDO INSTRUCAO

ESTAMOS BAIXANDO PELA QUAL ALGODAO TRANSFERIDO DA SEGUNDA

PARA TERCEIRA CATEGORIA DA INSTRUCAO 112 PT

ESTA ET OUTRAS MEDIDAS QUE SERAO TOMADAS TENDEM SIMPLIFICACAO

TAXAS CAMBIAIS DENTRO OBJETIVOS COMUNS GOVERNO ET FUNDO

MONETARIO

OCTAVIO BULHOES DIRETOR EXECUTIVO

Mr. Irving S. Friedman

Room 714-E

(1)

#1

EBD/55/21
Supplement 1

February 18, 1955

To: Members of the Executive Board

From: The Acting Secretary

Subject: Brazil - New Legislation on Exchange System

With reference to EBD/55/21, there is attached for the information of the Executive Directors a note prepared by the staff on recent Brazilian exchange regulations (Law No. 2410 of January 29, 1955).

Att:(1)

Other Distribution:
Department Heads
Division Chiefs

INTERNATIONAL MONETARY FUND

Brazil: New Legislation on Exchange System

Prepared by Western Hemisphere Department
and Exchange Restrictions Department

(In consultation with the Legal Department)

Approved by Irving S. Friedman and Jorge Del Canto

February 17, 1955

The English translation of Brazilian Law No. 2410 of January 29, 1955, on the exchange system was distributed to the Board in EBD/55/21. In the opinion of the staff this Brazilian Law does not envisage any immediate change in the Brazilian exchange practices, and therefore does not require at present any immediate action on the part of the Fund. This matter will be explored at the time of the forthcoming Article XIV Consultations with Brazil.

It is assumed that Brazil will consult the Fund in advance if it intends to change its exchange practices pursuant to the above indicated legislation.

February 9, 1955

To: Members of the Executive Board

From: The Acting Secretary

Subject: Brazil - Exchange Surcharges

Attached for the information of Executive Directors is an English translation of Decree No. 2410 of January 29, 1955, of the Brazilian Government which has been received from Mr. Paranagua and which is being reviewed by the staff.

Att:(1)

Other Distribution:

Department Heads

Division Chiefs

Decree No. 2410 of January 29, 1955, Published in the
Diario Oficial of January 31, 1955

The President of the Republic: I advise that the National Congress decrees and I sanction the following law:

Art. 1. The regime of prior license for trading abroad, under the terms provided for in Law 2145 of December 29, 1952, is extended until June 30, 1956.

Art. 2. If the Executive Power considers it feasible to eliminate in whole or in part the public auction of exchange certificates and consequent obtaining of import licenses, establishing that some or all imports be liquidated in the free market, the exchange surcharges obtained through the auction bids shall become the equivalent of the following percentages of the average auction bids in the auctions held in the last three months.

1st Category 35%; 2nd Category 50%; 3rd Category 65%;
4th Category 75%; 5th Category 100%.

First Paragraph - Import licenses shall be granted to all those who request them with a payment of 50% of the surcharges corresponding to the respective categories. The balance shall be paid as a condition of custom clearance directly to the Bank of Brazil or to the customs itself, at the same time as the import duties, as provided for by SUMOC.

Second Paragraph - That part of the surcharge paid to the customs will not be considered a customs receipt for any purposes.

Art. 3. The court injunctions which may be requested for clearance of any type of goods coming from abroad, either without prior license or with a license which is considered to be false, shall observe the following norms:

(a) In no case shall consideration be given to any preliminary suspension (suspensao liminar) of the seizure order against which the court injunction had been requested in accordance with Article 7, item 2 of Law 1533 of 1951.

(b) Once the injunction is granted by the judge of the court of first instance, and if the President of the Federal Court of Appeal does not suspend its execution, this injunction will be valid before it is confirmed by the superior court only if the importer, in the judgment of the Inspector of Customs, offers reputable banking guarantee or posts a bond of the federal public debt in the nominal value corresponding to 150 per cent ad valorem of the imported merchandise as prescribed in Article 6, paragraph 4 of Law 2145 of December 29, 1953.

Art. 4. The importation or introduction is prohibited, under any title, of any automobile considered a luxury (one), the price of which in the market of origin is in excess of \$3500, the respective equipment being computed in the price.

Art. 5. This law shall enter into force on the date of its publication, including its obligation, for this purpose the first Paragraph of Art. 1 of Decree Law 4657 of 1942 being revoked.

Rio de Janeiro, January 29, 1955, 134th. of Independence and 67th. of the Republic.

(Signed) Joao Cafe Filho
Miguel Seabra Fagundes

Eugenio Gudim
Raul Fernandes

Mr. Octavio Paranagua

2/9/55

The Managing Director

Decree No. 2410

This is to acknowledge the receipt of your memorandum communicating an English translation of Decree No. 2410 of January 29, 1955, of the Brazilian Government. It has been circulated to the Executive Directors for their information and is presently being studied by the staff.

cc: Mr. Del Canto

Mr. Friedman

CENTRAL FILES

Mr. Julio G. del Solar

2/9/55

J. J. Thackara

Brazil--Coffee

With the depreciation of the rates for coffee exports effective Monday, February 7, 1955, coffee prices have tended downwards and the spot price of 58 cents a pound for Santos 4's is only 1 cent above the new minimum of approximately 57 cents. Manizales are only 2 cents higher than Santos 4's. This would indicate that further declines in Santos 4's may be expected since Colombians usually sell at about 3 cents more than Brazilians. Another indication of possible increasing competition from the milds is yesterday's decision in Colombia, lowering the minimum from \$110 to \$95 a bag. The price of futures is also indicative of expectations of a declining trend.

(Cents a pound)

	2/4/55	2/7/55	2/8/55
March '55	59.80	56.40	55.55
May	54.55	52.05	51.65
July	52.17	50.00	49.25
Sept.	50.91	48.80	48.00
Dec.	49.91	48.05	47.50

How far the price might go down further is indicated by the discount on forwards which reflects the expectations of the trade. With March at 55.55 cents, further adjustments in Brazil are suggested. For a time, and within limits, the Brazilian exporter can circumvent the minimum by underinvoicing.

As shown in the attached table, the spot price of Santos 4's has fallen 7-1/2 cents in the last week. It will be recalled that last August the price decline was in the order of about 20 cents, without the supplies of milds that are coming onto the market in the present situation.

Spot Coffee Prices in New York

	<u>Brazilian</u> <u>Santos 4's</u>	<u>Colombian</u> <u>Manizales</u>	
<u>1955</u>			
Jan. 3	67.50	73.25	
4	67.50	73.25	
5	67.50	73.25	
6	67.50	73.25	
7	67.50	73.25	
10	67.00	73.25	
11	67.00	72.50	
12	67.00	71.00	
13	67.00	71.00	
14	66.75	70.50	
17	66.75	70.50	
18	66.75	70.50	
19	67.00	70.50	
20	67.00	70.50	
21	66.75	68.25	-- Traditional 3 cent differential broken
24	67.00	68.50	
25	67.00	68.50	
26	67.00	68.50	
27	66.50	67.75	
28	66.50	66.50	
31	66.00	65.50	-- Colombians sell below Brazilians
Feb. 1	65.50	64.50	
2	64.75	63.50	
3	64.50	63.00	
4	63.50	62.50	
7	59.00	60.00	-- Coffee rate raised from 31.50 to 37.06
8	58.00	60.00	

Brazil--Coffee Prices

Santos 4's in New York
(U.S. cents a pound)

1937-39		9.0	
1940-44		11.8	-- OPA set price at 13.4 cents in 1942-44. Ceiling price lifted in July '46
1946		21.8	
1947		30.1	
1948		26.8	
1949		31.8	
1950		50.9	
1951		54.3	
1952		54.1	
1953	Jan.	54.0	
	Mar.	61.8	
	June	56.0	
	July	51.3	-- Frost in Brazil, July 3, 1953
	Sept.	61.5	
	Dec.	61.3	
1954	Jan.	72.5	
	Feb.	76.3	
	Mar.	87.0	
	April	87.9	-- High point 95 cents on April 1, 1954
	June	88.4	-- June 3, 1954 87 cent minimum
	Aug.	87.9	-- Depreciation of export rate in Brazil
	Oct.	61.8	
	Nov.	61.9	-- Coffee dollar rate fixed at Cr\$31.50 per dollar
	Dec.	n.a.	

February 9, 1955

MEMORANDUM:

TO: Mr. Del Canto
Mr. Friedman ✓
Mr. Gold

FROM: A. C. Frost *Atusi*

Attached is a translation of Decree No. 2410 of the Brazilian Government which has been received from Mr. Paranagua. This is being circulated to the Board with a note to the effect that the staff is reviewing the matter.

Decree No. 2410 of January 29, 1955, Published in the
Diario Oficial of January 31, 1955

The President of the Republic: I advise that the National Congress decrees and I sanction the following law:

Art. 1. The regime of prior license for trading abroad, under the terms provided for in Law 2145 of December 29, 1952, is extended until June 30, 1956.

Art. 2. If the Executive Power considers it feasible to eliminate in whole or in part the public auction of exchange certificates and consequent obtaining of import licenses, establishing that some or all imports be liquidated in the free market, the exchange surcharges obtained through the auction bids shall become the equivalent of the following percentages of the average auction bids in the auctions held in the last three months.

1st Category 35%; 2nd Category 50%; 3rd Category 65%;
4th Category 75%; 5th Category 100%.

First Paragraph - Import licenses shall be granted to all those who request them with a payment of 50% of the surcharges corresponding to the respective categories. The balance shall be paid as a condition of custom clearance directly to the Bank of Brazil or to the customs itself, at the same time as the import duties, as provided for by SUMOC.

Second Paragraph - That part of the surcharge paid to the customs will not be considered a customs receipt for any purposes.

Art. 3. The court injunctions which may be requested for clearance of any type of goods coming from abroad, either without prior license or with a license which is considered to be false, shall observe the following norms:

(a) In no case shall consideration be given to any preliminary suspension (suspensao liminar) of the seizure order against which the court injunction had been requested in accordance with Article 7, item 2 of Law 1533 of 1951.

(b) Once the injunction is granted by the judge of the court of first instance, and if the President of the Federal Court of Appeal does not suspend its execution, this injunction will be valid before it is confirmed by the superior court only if the importer, in the judgment of the Inspector of Customs, offers reputable banking guarantee or posts a bond of the federal public debt in the nominal value corresponding to 150 per cent ad valorem of the imported merchandise as prescribed in Article 6, paragraph 4 of law 2145 of December 29, 1953.

Art. 4. The importation or introduction is prohibited, under any title, of any automobile considered a luxury (one), the price of which in the market of origin is in excess of \$3500, the respective equipment being computed in the price.

Art. 5. This law shall enter into force on the date of its publication, including its obligation, for this purpose the first Paragraph of Art. 1 of Decree Law 4657 of 1942 being revoked.

Rio de Janeiro, January 29, 1955, 134th. of Independence and 67th. of the Republic.

(Signed) Joao Cafe Filho Eugenio Guadin
Miguel Seabra Fagundes Raul Fernandes



To Buy file
Office Memorandum

Confidential

TO : Mr. Ivar Rooth
FROM : Jorge Del Canto *JSC*
SUBJECT : Brazil - Extension of Legislation on the "Auction System"

DATE: Feb. 8, 1955

See Memo. to Mr. Cochran (8 Feb 55)

I am attaching a copy of Decree 2410 of January 29, 1955 extending the auction system through June 30, 1956.

There was little doubt that the legislation on the auction that was due to expire January 31, 1955 would be extended. It came as a surprise to us, however, the authority given to the Executive to eliminate the auctions of dollars if necessary. A part of or all imports would then be liquidated through the free market. Surcharges (presumably these at present include the auction bids) would in this event be fixed at 35%, 50%, 65%, 75%, and 100% for the five import categories, the surcharges being based on the average bids for each category during the previous three months. This new system would in effect reverse the arrangements, since at present the exchange rate is fixed and the surcharge or auction bid varies, while in the arrangements provided for in the above authority the exchange rate would be fluctuating and the surcharge would be fixed.

We translated this Decree last week for Mr. Paranagua and suggested that he communicate this legislation officially to the Fund. If he has not done this as yet, I hope he will in the near future. Since Mr. Friedman has expressed interest on this matter, I have given a copy of the attached to him on an informal basis.

Attachment



Office Memorandum

TO : Mr. H. Merle Cochran

DATE: Feb. 8, 1955

FROM : Jorge Del Canto *JDC*

SUBJECT : Brazil

I have just received a phone call from Mr. Friedman indicating that you have requested some information on the present legislation extending the duration of the "auction system" for import payments in Brazil.

I am attaching a copy of Decree 2410 of January 29, 1955 extending the auction system through June 30, 1956.

An interesting feature of this legislation is that authority is given to the Executive to eliminate the auctions of dollars if necessary. A part of or all imports would then be liquidated through the free market. Surcharges (presumably these at present include the auction bids) would in this event be fixed at 35%, 50%, 65%, 75%, and 100% for the five import categories, the surcharges being based on the average bids for each category during the previous three months. This new system would in effect reverse the arrangements, since at present the exchange rate is fixed and the surcharge or auction bid varies, while in the arrangements provided for in the above authority the exchange rate would be fluctuating and the surcharge would be fixed.

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Rio de Janeiro, January 29, 1955, 134th. of Independence and 67th. of the Republic.

(Signed) Joao Cafe Filho
Miguel Seabra Fagundes
Eugenio Gudim
Raul Fernandes

INTERNATIONAL MONETARY FUND

Executive Board Decision No. 395-(55/7)

Subject: BRAZIL - EXCHANGE SYSTEM

1. Brazil has informed the Fund that the bonuses to be paid to coffee exports shall be the same as those applying to exports of products listed in Category II. Exports in Category II receive fixed bonuses of 18.70 cruzeiros in convertible currencies and pounds sterling and 17.19 cruzeiros in other currencies.

2. The Fund recognizes the need of Brazil to take measures to facilitate the export of coffee, and in this connection notes the shift of coffee to Category II. The bonus for coffee exports in convertible currencies and pounds sterling continues to differ from the bonus for such exports in other currencies. Therefore, the Fund, in accordance with its decision of January 28, 1955, will take action on this matter after study and early consultation with Brazil.

The foregoing is the text of a decision of the Executive Board taken at Meeting 55/7, February 7, 1955.

Albert C. Frost,
Acting Secretary

Mr. J. G. del Solar

2/7/55

J. J. Thackara

Brazil--Exchange system

1. Coffee: Movement slow in recent months. Central American and Colombian milds coming onto the market. The new minimum is 54.83 U.S. cents F.O.B. Santos or 56.83 U.S. cents F.O.B. New York. If there is a renewed declining trend of prices, then the market price may soon reach the new minimum. This would be indicated by present futures prices at present:

New minimum = 56.83	Futures	
	March 1955	58.25
	May 1955	53.50
	July 1955	51.25
	Sept. 1955	50.05
	Dec. 1955	49.15

The above futures prices would suggest that somewhere between March and May the market price would fall to the minimum.

2. Exchange rates: Additional changes may now be required on the export side. On the payments side the minimum 'agios' will have to be raised to avoid cruzeiro losses.

3. Art. 2 of SUMOC Instruction 114: Presumably this provision is a form of guaranty from loss for the buyer abroad resulting from a change in the minimum price. It is presumably not a guaranty against ordinary market variations in price. The problem would appear to be how one type of variation differs from the other. This will require clarification as well as the mechanics of paying the guaranty. One possibility would be a case where the U.S. importer buys a lot of coffee at 56 cents a pound, the equivalent of the minimum. The Brazilian Government then changes the minimum to 46 cents. The market price, in response to the new minimum, falls to 50 cents at the time the U.S. importer resells. He has sustained a loss of 6 cents due to the action of the Brazilian Government. He would presumably be reimbursed for the difference.

INFORMATION COPY

2/7/55

Brazil--Coffee Exports

(Million bags)

	<u>Total</u>	
	1954	1953
Jan.	1.125	1.204
Feb.	.944	1.206
Mar.	<u>1.375</u>	<u>1.359</u>
Subtotal	3.444	3.769
April	.998	.991
May	.474	.792
June	<u>.396</u>	<u>.997</u>
Subtotal	1.868	2.780
July	.626	.876
Aug.	.518	1.368
Sept.	<u>.837</u>	<u>1.662</u>
Subtotal	1.981	3.906
Oct.	.855	1.653
Nov.	1.547	1.792
Dec.	<u>1.25</u>	<u>1.659</u>
Subtotal	3.652	5.104
TOTAL	10.945	15.559

Brazil--Coffee Exports, 1955

(Thousand bags)

	Total	To U.S.	Europe	Other Countries	Total 1954
Week ending 1/8/55	255	130	55	70	326
Week ending 1/15/55	205	79	124	2	250
Week ending 1/22/55	160	77	71	12	379
Week ending 1/29/55	249	116	120	13	

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

For Immediate Attention

**FOR
AGENDA**

EBS/55/10
Supplement 1

CONFIDENTIAL

February 6, 1955

TO: Members of the Executive Board
FROM: The Acting Secretary
SUBJECT: Coffee Export Rates - Brazil

The staff has prepared the attached memorandum on the change in the Brazilian coffee export rates notified to the Fund by Mr. Paranagua in his memorandum to the Managing Director dated February 5, 1955 (EBS/55/10). A Board meeting for this item has been scheduled for Monday, February 7, 1955 at 3:30 p.m.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Western Hemisphere Department
and
Exchange Restrictions Department

Brazil: Change in the Exchange Rates for Coffee

Prepared by the Latin American (South)
and Multiple Currency Practices Divisions

Approved by Jorge Del Canto and Irving S. Friedman

February 6, 1955

By communication dated February 5, 1955, the Executive Director for Brazil informed the Fund of the decision No. 114 of Superintendency of Currency and Credit (SUMOC) granting to the proceeds of coffee exports the bonus applicable to Category II exports. Presumably, this decision will become effective Monday, February 7, 1955.

The application of Category II treatment to coffee would mean that the bonus will be increased from Cr 13.14 and Cr 11.86 per dollar for convertible currencies and sterling and for other currencies, respectively, to Cr 18.70 and Cr 17.19 per dollar, respectively. This results in effective rates for coffee of Cr 37.06 and Cr 35.55 as against Cr 31.50 and Cr 30.22 prevailing heretofore.

The communication of the Brazilian Government states that this change has been prompted by the present world market situation for coffee and the desire of the Brazilian Government to extend, in so far as possible, a uniform exchange treatment for its basic exports.

The steady growth in world production, a possible heavy marketing season for producers of mild coffee, the accumulation of large supplies and the possibilities of changes in the exchange system of Brazil have led to an increased weakness in coffee prices, both spot and futures. Furthermore, the traditional relationship between Santos' 4 and Colombian milds (Colombian milds usually sell at prices several cents above Brazilian prices) has been once again broken as both are being quoted at the same price.

Legislation providing for a minimum price for purposes of domestic financing of the 1954-55 crop continues in effect. The existence of this minimum (87 cents per pound for Santos' 4 or the equivalent of 20.32 cruzeiros per pound) was one of the reasons for the lowering of the coffee rate from 23.36 cruzeiros per dollar to about 31.50 cruzeiros per dollar August 14, 1954. This change resulted in a "de facto" change of the floor price for Brazilian coffee exports from 87 cents per pound to 64.5 cents per pound. By November 1954 the price of coffee had fallen to 72 cents per pound; on January 19, 1955,

it was further down to 67 cents per pound, and on Thursday, February 3, it was down to 62.5 cents per pound, with the market fairly slow. With prices below the Brazilian export minimum of 64 cents per pound and the Colombian premium having disappeared -- and the Brazilians being unable to change at present the minimum price support policy prescribed by law of June 3, 1954 -- the authorities have decided to depreciate the export rate for coffee exports. The extent of the depreciation is 17.7 per cent. With the new proposed rate the effective floor is reduced to 54 per cents per pound. December's 1955 futures are now at about 51 cents per pound, although the difference of about 11 cents between spot and futures is considered abnormally large.

The measures undertaken by the Brazilian authorities is designed to facilitate the realignment of the Brazilian supply price of coffee to the prices prevailing in world markets and thus to facilitate the resumption of the flow of coffee exports from Brazil. Shipments to New York have been slow in January, indicating reticence on the part of the U.S. buyers.^{1/}

Accordingly, the staff recommends the following decision for consideration by the Executive Board.

1. Brazil has informed the Fund that the bonuses to be paid to coffee exports shall be the same as those applying to exports of products listed in Category II. Exports in Category II receive fixed bonuses of 18.70 cruzeiros in convertible currencies and pounds sterling and 17.19 cruzeiros in other currencies.
2. The Fund recognizes the need of Brazil to take measures to facilitate the export of coffee. The bonus for coffee exports in convertible currencies and pounds sterling differs from the bonus for such exports in other currencies. Therefore, the Fund, in accordance with its decision of January 28, 1955, notes the proposed change in Brazil's exchange system and will take action on this matter after study and early consultation with Brazil.

^{1/}The staff does not have enough information to comment on section 2 of the SUMOC instruction No. 114.

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**FOR
AGENDA**

For Immediate Attention

EBS/55/10

CONFIDENTIAL

February 6, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: Coffee Export Rates - Brazil

The Managing Director has received the attached communication from Mr. Paranagua. The subject has been placed on the agenda for a meeting of the Executive Board at 3:30 p.m., Monday, February 7. A paper by the staff will be circulated later.

Att: (1)

INTERNATIONAL MONETARY FUND
Washington 25, D.C.

Executive Director

February 5, 1955

CONFIDENTIAL

To: Mr. Ivar Rooth, Managing Director

From: Octavio Paranagua

I have just received a telephone call from the Minister of Finance of Brazil, Prof. Eugenio Gudim, to the effect that the Council of the Superintendency of Money and Credit took a decision today to the effect that coffee exports be shifted from Category I to Category II in accordance with the export classification of Instruction 112 of SUMOC. This increase in the present bonus extended to coffee has been prompted by the present world market situation for coffee and the desire of the Brazilian Government to extend, in so far as possible, a uniform exchange treatment for its basic exports.

I am transmitting to you the text of Instruction 114 of SUMOC embodying this decision, which I received by phone. I would like to advise the Fund of these steps.

SUPERINTENDENCY OF MONEY AND CREDIT

INSTRUCTION No. 114

In accordance with a resolution of the Council taken at its meeting of February 5, the Superintendency of Money and Credit makes public the following decision:

1. When closing exchange contracts resulting from coffee exports, bonuses to be paid shall be the same as those applying to the products listed in Category II, referred to in Instruction No. 112.
2. Should an increase in the bonuses referred to in item 1 above occur within 45 days of any registered sale, and cause the buyer a price difference in foreign currency, said difference shall be compensated entirely in the same currency in which the purchase was made.
3. These provisions shall apply only to sale contracts closed after the publication of this instruction in the "Diario Oficial".

February 5, 1955

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3. These provisions shall apply only to sale contracts closed after the publication of this instruction in the "Diario Oficial".

INTERNATIONAL MONETARY FUND

Feb. 2, 1955

Mrs. de Vries:

Your comments, please.

ISF

TO: Mr. Friedman

No comments or suggested changes. I have also given this to Mr. Sacchetti who has made several suggestions (attached).

Irving S. Friedman

LAST YEAR'S LEVEL FOR COFFEE IS BACK

Continued From Page 1

tions. Normally major producers guarantee prices against reduction for at least a month. When the new prices were announced late in January roasters said there would be no further changes for fifteen days.

The retail movement of coffee prices has paralleled quotations for green coffee. Last week the price of Santos 4 (the basis of most of the brew consumed in this country) fell to 62.5 cents a pound delivered in New York Harbor. The price compares with the previous 1954-55 low of 64 cents on Aug. 31 and about equals the quotation of a year ago. The peak for the grade was 95 cents on April 1.

The present price of the Santos 4 coffee is well below the minimum export prices of about 67 cents a pound established by Brazil. The lower figure is based on quotations of resale prices for the grade.

Market Under Pressure

Despite denials by the Brazilian Government as recently as last week that there would be any change in policy that would permit coffee export prices to rise, many here look forward to lower prices before the end of the first quarter of the year.

The coffee market is under

pressure of heavy supplies from Mexico and Central America. Many of these countries do not have storage facilities for coffee and ship the crop as soon as it is harvested. While these grades are selling at a discount little interest has been shown for Brazilian coffee at minimum export prices.

Colombian coffees, which normally sell at about a 3-cent-a-pound premium over Santos 4's, are selling at the same prices as the basic Brazilian grade. While no official figures are available it is estimated that Colombia has a normal supply of about 1,000,000 bags (132 pounds to a bag) of coffee to sell before the new crop is harvested.

Brazil Has Carry-Over

Brazil, on the other hand, has a large carry-over. On Dec. 31 there were about 9,000,000 bags of coffee available from the 1954-1955 crop, according to George Gordon Paton & Co., coffee economists. The figure compares with 6,550,000 bags a year earlier.

In order to move the substantial supplies it appears that Brazil must reduce prices to become competitive with the world market. The high price of Brazilian coffee last year was one of the main factors resulting in the large carry-over.

Total exports of all grades of Brazilian coffee were 10,916,976 bags last year, compared with 15,558,446 in 1953 and 15,823,006 in the preceding year, according to Paton. The figure for 1954 was the lowest since 1910 except the war years of 1917, 1918, 1942 and 1943.

plant-location news



What transportation facts do you need?

Recently, a container manufacturer using our Industrial Location Service to help select the right spot for his new plant, sent in this request: "We've got to be located where we can supply all areas of our market within 36 hours at a cost that will let us compete for new business." As in many other businesses, the transportation costs and schedules involved could make or break his proposed operation. But ILS found the perfect location—fast.

Here are some of the reasons why. ILS can give complete, up-to-the-minute facts on transportation costs, schedules, and facilities. Whether your business calls for assembling heavy or bulky water-borne materials, or for the use of air transport to get there fast, ILS can give you all the facts—secured firsthand from dozens of carriers.

We even maintain a Washington office to help in transportation problems. From this listening post we get current reports on tariffs, regulations, and schedules. And all of this information is included in our free transportation reports.

We fill in the picture, too

But this isn't the only type of transportation data ILS supplies. For one specialty-goods manufacturer we did all this: located sites with suitable warehouses for ceramic bodies, and within a short distance of LCL terminals. Even more important, we found him available sites with private railroad sidings.

For every suggested location, ILS also prepared rates for assembling materials and distributing finished goods to given points. Supplied comparative rates for air, rail, water, and highway, too. The manufacturer received these facts for a number of sites in less than ten days. Helped him pick just the right spot without delay.

Other free plant-site services

Transportation won't be your only concern when you're looking for a plant location. But no matter what other services you need, ILS can help.

Department

Department store sales in the United States in the week ended Jan. 29 were 1 per cent higher than in the corresponding week a year ago, according to the Federal Reserve Board. In the previous week and in the four weeks ended Jan. 29 they were 10 per cent higher than in like periods of 1954.

Six of the twelve districts showed gains in the latest week. The heaviest, 10 per cent, was Atlanta. Minneapolis equalled figures of last year. The heaviest year-to-year decline was 4 per cent in Richmond.

Information on business in the various districts follows:

New York

New York's department store sales dropped noticeably last week. They were 5 to 10 per cent below the like 1954 period. Spring business was to have begun on a large scale in the stores during the week. But snow and cold weather thwarted hopes for appreciable volume. The corresponding week last year four stores with ideal weather and sales performance was satisfactory.

Business in the women's wholesale apparel markets continued strong. Orders for better-price sportswear for spring were heavier than in the preceding week and dresses were re-ordered. Sales of men's and boys' clothing, particularly work clothes, were also good.

Demand for cotton print decreased in the textile market but the call for both rayon pocketing twill and Buyers who needs for fall entered the market as a result of weight increase. Trade figures were significant.



Office Memorandum

TO : Mrs. Margaret G. de Vries

DATE: February 3, 1955

FROM : Ugo Sacchetti U.S.

SUBJECT: Draft Minutes of EBM 55/5, "Exchange System - Brazil"

My comments on the draft minutes in question follow. As an introduction to them I must say that they tend to point out something which is factually not correct, rather than discrepancies between what was actually said at the meeting and what is in the draft minutes. At p. 1, line 20 (statement by Mr. van Campenhout) and at p. 3, line 12 (statement by the staff representative), the percentage difference between the effective rates for the convertible currencies and the pound sterling on one side and the other currencies on the other side is indicated as being 4.2 per cent. The percentage differentials actually are 4.06 per cent for Categories I, III and IV and 4.07 per cent for Category II. On the basis of this I would say that a change is desirable either in p. 3 (staff) or in both pages. My suggestion would be to change "4.2 per cent" into either "about 4.06 per cent" or "about 4 per cent."

I am most concerned with what appears in the draft as the explanation by the staff representative, and particularly with the statement that "the new regulations did not involve a new discrimination in favor of sterling" (p. 2 last paragraph).

In the first place this is in conflict with what is said later in p. 3, line 8, to the effect that the elimination of a discount with respect to the dollar (even though less than 1 per cent) has been brought about.

In the second place, any statement as to the magnitude of the existing discount of the pound sterling vis-a-vis the dollar should be accompanied by a date, in consideration of the fluctuating nature of the free rates for the dollar and the pound. As a matter of fact on December 24, 1954, the last day for which I was able to secure data on free market quotations, the pound sterling was quoted in Rio at about 4.06 per cent discount which resulted in a "calculated" rate (80%-20% mixing) of Cr\$33.51 which, compared with the 34.144 dollar rate, presented a discount of about 1.85 per cent (not "less than 1 per cent"). Moreover, on that date, the Belgian franc was quoted at only 2.28 per cent discount in the free market which resulted in a discount of 1.34 per cent in the "calculated" effective export rate. In other words, if December 24 is taken as a reference, on that day the rate was more favorable to exports to Belgium than to the sterling area, whereas, after the introduction of the new system the rate system favors exports paid for in pounds sterling by 4 per cent. I would hesitate to say, in presence of these facts, that no new discrimination in favor of the pound sterling is introduced.

In the third place, and also on the basis of the facts above, it appears that the significance of the new measure for the direction of exports should be judged on the basis of what would have happened under the old system.

In this connection nobody could exclude that the pound quotation in the free market would tend to present larger percentage discounts in the future, both in respect to the dollar and in respect to other currencies. No acceptable argument, however, could be based, of course, on speculations about future developments in the free market. It would seem advisable, therefore, to stick to the known facts which, insofar as I can see, are:

- 1) With respect to what the situation was at about the time of the new measure, the discrimination brought about in favor of the pound sterling is far from being negligible.
- 2) The new measure, with respect to the previously prevailing practice, signifies that the possibility of an appreciation of the cruzeiro vis-a-vis the pound sterling larger than an appreciation vis-a-vis other currencies (~~or~~ the possibility of a depreciation of the cruzeiro vis-a-vis the pound sterling less than a depreciation vis-a-vis other currencies) is eliminated.

I am not suggesting that all these considerations be included in the minutes, otherwise we should rewrite them entirely. I think that to keep the changes to a minimum we could introduce the following amendments:

p. 2, 3rd. line from bottom: (the whole line replaced by)
"situation in the free exchange market existing at about the time of the new regulations indicates that these regulations did not involve a large favorable treatment in favor of exports paid for in pounds sterling ~~with respect to~~ those in convertible currencies"

p. 3, line 7, in parenthesis I would put "about 1 per cent".

p. 3, line 10, instead of "other European currencies" I would put "agreement dollar' countries".

p. 3, line 12, instead of "4.2 per cent", I would put either "about 4 per cent", or "about 4.06 per cent".

I do not know to what extent we may suggest changes in statements made by Executive Directors. The fact is that on p. 2, second paragraph, it is not correct to say that the new regulation made official a procedure that had been applied by the Bank of Brazil. The former procedure was official as well, with the only possible exception of the practice of applying a 10 per cent discount for the purpose of calculating the rates applicable to exports to "agreement dollar" countries.

as compared with

Feb. 7, 1955

Miss Hodel

Irving S. Friedman

Please note suggested changes in Brazilian minutes. On page 2, third line from bottom should read ". . . situation in the free exchange market existing at about the time of the new regulations indicates that these regulations did not involve a large favorable treatment in favor of exports paid for in pounds sterling as compared with those in convertible currencies."

If you find the time, it might be desirable for us to have a brief discussion of these minutes. They contain a number of inaccuracies in the form of statements by various Executive Directors. We, of course, do not feel that we can suggest changes in the statements of the Executive Directors.

Attachment

OFFICIAL

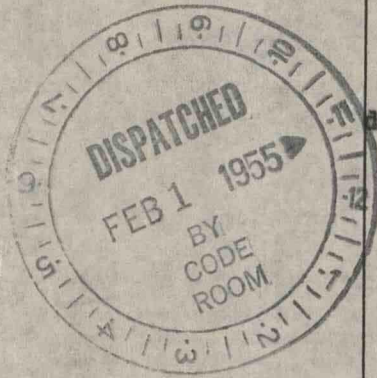
OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS



EBM/55/5, 1/28/55
 EBS/55/4, Sup. 4,
 1/28/55

A.C.FROST

Prepared By F. Hoel
 Department Secy's Office
 Date January 31, 1955

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM

Time Received 9:50 AM
 Time Dispatched 11:30 AM
 Number of Words 258
 Log 17223
 Route ALL AMERICA
 Operator AT

INTERNATIONAL MONETARY FUND
 Washington 6, D. C.

cc: Mg. Dir.
 Dep. Mg. Dir.
 Mr. Paranagua
 ERD 3
 WHD
 LEG
 RES
 TRE
 SEC

To: Dr. Octavio Gouvea de Bulhoes
Diretor Executivo
Superintendencia da Moeda e do Credito
Rio de Janeiro, Brazil

NO 45

Reference your cable No. 32, Executive Board took following decision:

QUOTE On January 17, 1955, the Fund took the following decision:

INNERQUOTE 1. Brazil has requested the Fund's approval for changes in its exchange system which would classify exports into four categories with fixed bonuses applying to each category. The four categories and bonuses are: (1) green coffee - 13.14 cruzeiros; (2) raw cotton, sawn pine wood, cocoa, carnauba wax, Brazil nuts, leaf tobacco, and bananas - 18.70 cruzeiros; (3) piassava, castor seeds, soya beans, hides and skins, sisal, cocoa cake and paste - 24.70 cruzeiros; (4) other products - 31.70 cruzeiros.

2. The Fund does not object to these changes as an emergency measure, pending a subsequent review on the occasion of Brazil's forthcoming consultations under Article XIV on its transitional arrangements and other exchange matters **END INNERQUOTE**

After this decision was taken, the Fund received the following cable No. 32, dated January 17, 1955:

INNERQUOTE Bonuses referred our cable No. 31 must be understood only for exports payable in convertible currencies and pounds sterling. For other currencies bonuses per U.S. dollar will be:

1st category cruzeiros	11.86
2nd cruzeiros	17.19
3rd cruzeiros	22.95
4th cruzeiros	29.67

Superintendencia da Moeda e do Credito **END INNERQUOTE**

After discussion of this situation, the Fund notes the contents of cable No. 32 of January 17, 1955 from Brazil, listing bonuses for exports payable in currencies other than convertible currencies and pounds sterling. The Fund will take action on this matter after study and early consultation with Brazil **END QUOTE**

ROOTH
Interfund

Brazil

Director, Western Hemisphere Department
Director, Exchange Restrictions Department
Acting General Counsel

5:30 p.m.
January 31, 1955

Acting Secretary

Exchange System - Brazil

This is to advise you that within the time specified, no Executive Director has objected to the proposal set forth in EBS/55/4, Sup. 4, (1/28/55). Accordingly, the Executive Board's approval is assumed.

W

ALY
FH:rl 1/31/55

CENTRAL FILES

INTERNATIONAL MONETARY FUND

Executive Board Decision No. 391-(55/5)

Subject: BRAZIL - EXCHANGE SYSTEM

On January 17, 1955, the Fund took the following decision:

1. Brazil has requested the Fund's approval for changes in its exchange system which would classify exports into four categories with fixed bonuses applying to each category. The four categories and bonuses are: (1) green coffee - 13.14 cruzeiros; (2) raw cotton, sawn pine wood, cocoa, carnauba wax, Brazil nuts, leaf tobacco, and bananas - 18.70 cruzeiros; (3) piassava, castor seeds, soya beans, hides and skins, sisal, cocoa cake and paste - 24.70 cruzeiros; (4) other products - 31.70 cruzeiros.

2. The Fund does not object to these changes as an emergency measure, pending a subsequent review on the occasion of Brazil's forthcoming consultations under Article XIV on its transitional arrangements and other exchange matters.

After this decision was taken, the Fund received the following cable No. 32, dated January 17, 1955:

Bonuses referred our cable No. 31 must be understood only for exports payable in convertible currencies and pounds sterling. For other currencies bonuses per U. S. dollar will be:

1st category cruzeiros	11.86
2nd cruzeiros	17.19
3rd cruzeiros	22.95
4th cruzeiros	29.67

Superintendencia da Moeda e do Credito

After discussion of this situation, the Fund notes the contents of cable No. 32 of January 17, 1955 from Brazil, listing bonuses for exports payable in currencies other than convertible currencies and pounds sterling. The Fund will take action on this matter after study and early consultation with Brazil.

The foregoing is the text of a decision of the Executive Board taken at Meeting 55/5, January 28, 1955.

Albert C. Frost,
Acting Secretary

For Immediate Attention

EBS/55/4
Supplement 4

+ Corr. 1

CONFIDENTIAL

January 28, 1955

To: Members of the Executive Board

From: The Acting Secretary

Subject: Brazil - Exchange System

There follows the text of the decision on Brazil discussed at Meeting 55/5 which will be deemed approved if no Executive Director indicates objection by 5:30 p.m. on Monday, January 31, 1955.

On January 17, 1955, the Fund took the following decision:

1. Brazil has requested the Fund's approval for changes in its exchange system which would classify exports into four categories with fixed bonuses applying to each category. The four categories and bonuses are: (1) green coffee - 13.14 cruzeiros; (2) raw cotton, sawn pine wood, cocoa, carnauba wax, Brazil nuts, leaf tobacco, and bananas - 18.70 cruzeiros; (3) piassava, castor seeds, soya beans, hides and skins, sisal, cocoa cake and paste - 24.70 cruzeiros; (4) other products - 31.70 cruzeiros.

2. The Fund does not object to these changes as an emergency measure, pending a subsequent review on the occasion of Brazil's forthcoming consultations under Article XIV on its transitional arrangements and other exchange matters.

After this decision was taken, the Fund received the following cable No. 32, dated January 17, 1955:

Bonuses referred our cable No. 31 must be understood only for exports payable in convertible currencies and pounds sterling. For other currencies bonuses per U.S. dollar will be:

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Superintendencia da Moeda e do Credito

After discussion of this situation, the Fund notes the contents of cable No. 32 of January 17, 1955 from Brazil, listing bonuses for exports payable in currencies other than convertible currencies and pounds sterling. The Fund will take action on this matter after study and early consultation with Brazil.

Mr. Del Canto

1/28/55

J. J. Thackara

Brazil--Exchange Rates

By way of illustrating the extent of currency discrimination in Brazil since last August, the attached table has been prepared. The table indicates the rates applying to coffee exports only, at the time of the August 1954 change, limiting export rates to the free market; and the three subsequent changes, i.e., September 14, 1954, when the U.S. free market less 10 per cent was taken in computing the effective rate for currencies other than the U.S. dollar and the pound; November 11, 1954, when a fixed bonus and, therefore, a fixed rate was established for coffee exports in U.S. dollars only; January 18, 1955, when two sets of fixed bonuses were established, one set for U.S. dollars and sterling and another set for other currencies. Since there was a free market for sterling with a free market rate approximating that for the dollar, sterling was treated like dollars, whereas for other currencies a uniform nominal free rate was taken equivalent to the free market rate for U.S. dollars less 10 per cent. It is noted that the rate for sterling was always more depreciated than that for other currencies during the period under review.

In the following table the rates for coffee are placed in order of depreciation to indicate the shifts:

			<u>Per cent difference</u>
August 14, 1954	^{1/}	Other currencies	
	30.49	Pound sterling	
	31.49	U.S. dollars	3.0
September 14, 1954	29.67	Other currencies	
	30.69	Pounds sterling	3.4
	30.39	U.S. dollars	4.1
November 11, 1954	31.29	Other currencies	
	31.50	U.S. dollars	0.67
	32.29	Pounds sterling	3.2
January 18, 1955	30.22	Other currencies	
	31.50	Pounds sterling	4.2
	31.50	U.S. dollars	4.2

^{1/} Since there was no free market in many currencies, the Bank of Brazil presumably set nominal free market rates for this purpose. Presumably, also, the currency discrimination may have been very sizable, indeed, e.g., in the event a free market rate were the equivalent of Cr\$30.00 per dollar, the effective rate would be approximately 23 per cent.

INFORMATION COPY

Brasil: Exchange Rates—For Coffee Exports Only
 (Cruzeiros per dollar or dollar equivalent)

	<u>U.S. Dollar</u>	<u>Sterling^{1/}</u>	<u>Other Currencies</u>
From October 1953 to August 14, 1954 (Fixed bonus of Cr\$ 5.00 per dollar 18.36 plus 5.00)	<u>23.36</u>	<u>23.36</u>	<u>23.36</u>
August 14, 1954	<u>31.49</u> 80% at 23.36 (18.36 plus 5.00 bonus); 20% at free rate of Cr\$64 per dollar	<u>30.49</u> 80% at 23.36 (18.36 plus 5.00 bonus); 20% at free rate of Cr\$59 per dollar	<u>Different for each currency^{2/} depending on free rate</u> 80% at 23.36 (18.36 plus 5.00 bonus); 20% at free market rate for each of the currencies.
September 14, 1954	<u>30.89</u> 80% at 23.36 (18.36 plus 5.00 bonus); 20% at free rate of Cr\$61 per dollar	<u>30.69</u> 80% at 23.36 (18.36 plus 5.00 bonus); 20% at free rate of Cr\$60 per dollar	<u>29.67</u> 80% at 23.36 (18.36 plus 5.00 bonus); 20% at free market rate for U.S. dollars less 10% or Cr\$54.9 per dollar
November 11, 1954	<u>31.50</u> 18.36 plus fixed bonus of 13.14 per dollar	<u>32.29</u> 80% at 23.36 (18.36 plus 5.00 bonus); 20% at free rate of Cr\$68 per dollar	<u>31.29</u> 80% at 23.36 (18.36 plus 5.00 bonus); 20% at free market rate for U.S. dollars less 10% or Cr\$63
January 18, 1955	<u>31.50</u> 18.36 plus 13.14 bonus	<u>31.50</u> 18.36 plus 13.14 bonus	<u>30.22</u> 18.36 plus 11.86 bonus

^{1/} Cruzeiro rate divided by 2.80.

^{2/} In the case of some currencies, the free market rate was nominal.

EXECUTIVE BOARD MINUTES

EXECUTIVE BOARD MEETING 55/5

1818 H Street, N. W.

10:00 a. m., January 28, 1955

Present:

I. Rooth, Chairman; H. M. Cochran, Deputy Managing Director; Executive Directors: S. T. G. Akermalm, L. H. E. Bury, D. Crena de Iongh, C. Gragnani, Lord Harcourt, J. de Largentaye, J. Luna-Guerra, O. Paranagua, F. A. Southard, B. Tann, A. van Campenhout, T. Yumoto; Alternate Executive Directors: T. Friis, B. B. Callaghan, H. M. H. A. van der Valk, O. Donner, C. P. Caranicas, P. J. Keogh, A. de Lattre, J. C. Gouvea, V. G. Pendharkar, J. H. Warren, A. Mansour, J.S. Hooker, K.H. Yu, M. Toussaint, B. Wongswan; A.C. Frost, Acting Secretary; F. Hodel, Assistant Secretary.

Present for Items:

1-2--P. J. Brand, Western Hemisphere Department; 1-2--J. Del Canto, Western Hemisphere Department; 1-2--J. H. C. de Looper, Exchange Restrictions Department; 1-2--J. G. del Solar, Western Hemisphere Department; 1-2--M. de Vries, Exchange Restrictions Department; 1-5--H. L. Dey, Director, Asian Department; 1-3--P. Ehrlich, Treasurer's Department; 1-3--J. G. Evans, Legal Department; 1-3--C. B. Fink, Treasurer's Department; 1-2--I.S. Friedman, Director, Exchange Restrictions Department; 1-3--J. Gold, Legal Department; 1-2--E. P. Hexner, Legal Department; 1-3--Y. C. Koo, Treasurer; 1-3--R. Kroc, Treasurer's Department; 1-2--A. Mattera, Exchange Restrictions Department; 1-2--C. J. Pritchard, Exchange Restrictions Department; 1-7--J. Reid, Office of the Managing Director; 1-2--U. Sacchetti, Exchange Restrictions Department; 1-3--E. Sturc, Deputy Director, European Department; 1-2--J. J. Thackara, Western Hemisphere Department.

1. Approval of Minutes

The draft minutes of Meetings 54/65 and 54/66 were approved.

2. Exchange System - Brazil

The Executive Board took up a cable from Brazil (EBS/55/4, Sup. 2, 1/18/55) providing additional information on the recent changes in Brazil's buying rates (EBS/55/4, 1/15/55, and Sup. 1, 1/16/55; EBM/55/3, Item 1, 1/17/55). The staff recommended that the Fund note the contents of the cable, further study the matter and take action at the time of the forthcoming consultations under Article XIV.

Mr. van Campenhout thought the situation must be of concern to the Fund from the standpoints of both the proper discharge of its jurisdictional function and the substance and that this concern should be expressed in the Board. The decision at Meeting 55/3 (Item 1, 1/17/55) was taken on a proposal to change the exchange system of Brazil establishing, by means

of new fixed bonuses, four rates discriminating between four groups of commodities but not between currencies. Subsequently, the Fund received the cable under discussion informing it that these rates applied only to trade in convertible currencies and sterling, and stating that for the same categories of export goods paid in other currencies, four other rates were applicable, reflecting a disagio of 4.2 per cent. He believed it should be clearly recorded that these four new rates are not approved by the Fund but in what form did not appear to him to be of too great importance and he thought in that respect that the Board could take into consideration the formulation proposed by the staff to the effect that the Fund merely takes note of these rates. It was a mild expression but its meaning and intent were familiar to the Board and not ambiguous. He could not, however, support the second part of the staff's proposal because the situation in substance was too serious for the Fund to close the matter until the annual Article XIV consultations with Brazil. Developments might call for more urgent attention. The Belgian authorities, for instance, were extremely apprehensive about the effects of the new Brazilian currency discriminations. They thought the maintenance of the present system might lead to a very serious contraction of trade between Belgium and Brazil and a distortion of the normal channels of such trade. The Belgian situation and concern were probably not unique. This should lead the Fund to an immediate and purposeful examination. For this reason, he proposed that consultations between the Fund and Brazil commence in the immediate future with the particular objective of carefully considering the reasons for the currency discriminations in Brazil's export rates and the possibility of their elimination. Moreover, the Board should be kept regularly informed on the progress of such consultations. In concluding, Mr. van Campenhout said that he was fairly well aware of the situation in Brazil and that it was indeed in sympathy with the difficulties facing its Government and its efforts that he had kept his remarks to the bare essentials. He hoped and trusted that the Fund would receive the collaboration it needed from the Brazilian Government.

Mr. Paranagua explained that the new regulations did not involve a significant change in the exchange system. They merely made official a procedure that had been applied by the Bank of Brazil since September 1954 and constituted a step in the right direction in that the export rates were no longer linked with the

free market. He stressed that the Government's action was not intended to create any deterioration in trade relations with Belgium, an important market for Brazilian goods, but was primarily designed to increase trade with the United Kingdom because of the large payments arrears with that country. He added that he saw no reason for a special consultation on the matter but he would urge the Brazilian authorities to agree to have the Article XIV consultations within thirty days.

In reply to a question, a staff representative explained that the situation in the free exchange market existing at about the time of the new regulations indicates that these regulations did not involve a large favorable treatment in favor of exports in pounds sterling as compared with those in convertible currencies. Since certain inconvertible currencies were not quoted in the free market, the authorities on September 14, 1954, adopted a procedure for computing the effective rate for such currencies, the free rate for U.S. dollars less 10 per cent being applied to 20 per cent of the value of exports. It appeared that because of an active free market in sterling the above procedure was not applied to sterling; however, since the dollar/sterling relationship in the free market was broken, there was a small discount (about 1 per cent) in the rate for exports to the sterling area, compared with the rate for exports to the dollar countries. This difference disappeared with the new regulations. The aforementioned procedure for the computation of the effective rates for the indicated currencies, i. e., the free rate for the U.S. dollar less 10 per cent, resulted in a differential of around 4 per cent in the rates for exports to the respective countries. Under the new regulations the differential was frozen at about 4 per cent.

Mr. de Largentaye, unlike Mr. Paranagua, thought that it was not the same thing for broken cross rates to result from the operation of a free market or from a governmental decision establishing official exchange rates, less so when the latter implied discrimination between equally inconvertible currencies. Owing to the possible consequences of the proposed measure on Franco-Brazilian trade, he had to make reservations on behalf of the French Government.

Mr. van Campenhout believed that the situation of rates in Brazil was still so confused that he felt unable to discuss it and wished to confine himself to his proposal for early consultation on the matter. He would have no objection if this took place concurrently with the Article XIV consultations if they were started early, for instance, within thirty days and if the report on the recent changes would not be held up until the final report on the consultations. Other Directors agreed. Mr. Bury said he hoped the staff would be able to examine all of Brazil's bilateral agreements on exchange matters in the course of the consultations.

Lord Harcourt thought they should also cover an examination of the effect on other countries of all dealings in Europe in depreciated cruzeiros. On the understanding that the Article XIV consultations with Brazil would be started as soon as possible, he was prepared to go along with the staff's recommendation. However, he thought the decision should make clear that the Board took its decision at Meeting 55/3 on the basis of incomplete information. Mr. Warren agreed and expressed the hope that the Fund would not be asked in the future to take decisions of this kind without full information. Mr. van Campenhout suggested that the fact that the decision of January 17, 1955 was taken on information showing no discrimination between currencies could be reflected if the decision spelled out all the circumstances involved. Several other Directors supported this suggestion.

Mr. Southard said he had no objection to the text proposed by the staff which would have the legal effect of not constituting an approval of the rates listed in the new cable. Mr. de Largentaye said that the proposed decision, if amended as suggested by Mr. van Campenhout to mention the decision of January 17, could only be interpreted as an approval of the actual Brazilian reform since the Fund having received supplementary information about it did not revise its first decision. Mr. van Campenhout disagreed and said it was not the intention of his proposal. Mr. Southard said he thought the proposed decision would mean that the Fund was not approving the rates listed in the cable under discussion; at the same time, the decision of January 17, 1955, not to object to the rates specified in the cable of January 14, 1955 would stand. A staff representative explained that by "taking note" of Brazil's cable of January 17, 1955 and stating that action will be taken later, the Fund would not be taking the affirmative action of approval provided for in the Fund Agreement and, consequently, the new rates would not have the Fund's approval. The Fund Articles did not require express disapproving action. The absence of affirmative action in respect to exchange measures which are subject to such affirmative action of the Fund indicates that the measures do not have Fund approval. (The Fund's affirmative action frequently has been expressed in the form of the Fund's "not objecting" to an exchange practice.) Mr. van Campenhout and Mr. Southard, after some discussion, said they agreed with this explanation.

The decision was:

On January 17, 1955, the Fund took the following decision:

1. Brazil has requested the Fund's approval for changes in its exchange system which would

classify exports into four categories with fixed bonuses applying to each category. The four categories and bonuses are: (1) green coffee - 13.14 cruzeiros; (2) raw cotton, sawn pine wood, cocoa, carnauba wax, Brazil nuts, leaf tobacco, and bananas - 18.70 cruzeiros; (3) piassava, castor seeds, soya beans, hides and skins, sisal, cocoa cake and paste - 24.70 cruzeiros; (4) other products - 31.70 cruzeiros.

2. The Fund does not object to these changes as an emergency measure, pending a subsequent review on the occasion of Brazil's forthcoming consultations under Article XIV on its transitional arrangements and other exchange matters.

After this decision was taken, the Fund received the following cable No. 32 dated January 17, 1955:

Bonuses referred our cable No. 31 must be understood only for exports payable in convertible currencies and pounds sterling. For other currencies bonuses per U. S. dollar will be:

1st category cruzeiros	11.86
2nd cruzeiros	17.19
3rd cruzeiros	22.95
4th cruzeiros	29.67

Superintendencia da Moeda e do Credito

After discussion of this situation, the Fund notes the contents of cable No. 32 of January 17, 1955 from Brazil, listing bonuses for exports payable in currencies other than convertible currencies and pounds sterling. The Fund will take action on this matter after study and early consultation with Brazil.

3. Repurchase - Turkey

The Executive Board considered a cable from Turkey with respect to the repurchase of the equivalent of \$4 million of the Fund's holdings of Turkish liras (EBS/55/6, 1/25/55).

The decision was:

Turkey has offered to repurchase the equivalent of \$4,000,000 of the Fund's holdings of Turkish liras in accordance with its undertaking in its cable of August 4, 1953. The equivalent of \$1,460,808.70 would be paid in accordance with the Fund's letter of March 24, 1954. The balance equivalent to \$2,531,191.30 would be paid on the understanding that it would be considered as discharge pro tanto of the repurchase obligation as of April 30, 1954, if such was incurred (EBS/55/6, 1/25/55). The Fund accepts the offer.

4. Voluntary Repurchase - Finland

In the absence of a request by any Director for formal consideration in the time specified, the following decision was recorded (SM/55/6, 1/24/55):

Finland has offered to repurchase the equivalent of \$3,000,000 of the Fund's holdings of Finnish markkas provided that the payment will be considered as a discharge pro tanto of any repurchase obligation as of April 30, 1954, if such was incurred (SM/55/6, 1/24/55). The Fund accepts the offer.

5. ECAFE - Fund Representation

The Fund representation at the forthcoming meetings of the ECAFE Committee on Industry and Trade and the Eleventh Session of the Commission as proposed in EBD/55/10 (1/20/55) was approved.

6. Executive Board Travel

The Executive Board was informed of travel by an Executive Director to countries which elected him as set forth in EBAP/55/8 (1/24/55). No objection was expressed. The Executive Board also approved travel to two other countries by the same Director, as set forth in the same document.

7. Monthly Agenda

The Executive Board considered and agreed matters to be placed on the agenda during the month of February, it being understood that changes would be made as the work required (EBD/55/14, Rev. 1, 1/28/55).

8. Technical Cooperation - Iran

In the absence of a request by any Director for formal consideration in the time specified, the following decision was recorded (EBD/55/12, 1/25/55):

In response to a request from Iran for technical assistance, the Executive Board agreed to the proposal contained in EBD/55/12 (1/25/55).

APPROVED BY THE EXECUTIVE BOARD:

Meeting 55/10, February 25, 1955

H. MERLE COCHRAN
Acting Chairman

ROMAN L. HORNE
Acting Secretary

Aide-memoire for Mr. Irving S. Friedman

for the E.B. Meeting on Brazil, Friday, Jan. 28, 1955

One of the aspects of the change in the export rates system recently introduced by Brazil is the fact that some significant features -- the broken cross-rates -- were made known to the Fund only after the Executive Board had taken action on the proposed change, as it was described in the first Brazilian communication.

Something similar to that occurred at the time of the 1953 consultations with Brazil. On that occasion the Executive Board took action, on October 9, 1953, on the basis of the staff paper which was prepared as a result of lengthy discussions with Brazilian representatives in Washington. The following day, October 10, 1953, a cable was sent by Brazil to inform the Fund that the Brazilian authorities proposed to introduce an auction system -- a radical change over the system on which the Executive Board had just taken action the day before.

An Executive Board meeting was held on Sunday, October 11, 1953, during which the decision was taken to supersede the decision adopted at the end of the October 9 meeting, thus reopening the 1953 Consultations with Brazil.

The final Executive Board decision was taken at the E.B. Meeting of Friday, October 23, 1953.

Aide-memoire for Mr. Irving S. Friedman

for the E.B. Meeting on Brazil, Friday, January 28, 1955

Various questions could be brought into discussion on the main object of the meeting, and among the significant ones the Executive Board could be interested in the following:

Procedure question: The Brazilian Government has communicated to the Fund, for consultation purposes, only part of the technical features of the proposed change in the export rates system. The information as to the fact that orderly cross rates are not maintained was given to the Fund by the Brazil authorities only after the proposed change was discussed at the E.B. meeting of January 17, 1955.

Maintenance of Currency Discrimination: The Brazilian Government, by the proposed change, has established less favorable rates for exports against currencies other than the dollar and pound sterling. Although some aspects of the former discriminatory practices have been altered, the measure in question amounts to the continuation of the discriminatory feature which characterized the previous export rates system.

More favorable treatment to exports against pounds sterling: One of the main characteristics of the system of export rates now prevailing, over the previous one, is the fact that exports against pounds sterling are given the same favorable rate as exports against dollars; whereas the pound sterling was previously associated with the other non-dollar currencies. This change may involve significant changes in the direction of Brazilian trade and payments.

An important point which should be brought out among others as the outcome of the discussion is the indication of what the Executive Board wants the staff to do in dealing with this Brazilian problem, if it is decided to give further consideration to the case, and to take an action on it, before the time of the forthcoming Article XIV Consultations.



Office Memorandum

TO : Mr. Irving S. Friedman

FROM : J. H. C. de Looper *dhk*

SUBJECT : Latest Brazilian Exchange Measures

DATE: January 27, 1955

The following notes may be helpful in further evaluating the significance of the newly created Brazilian export rates.

- (1) The new exchange rates appear to discriminate against the U.S and in favor of the U.K. , despite the ostensibly similar treatment accorded to export proceeds received in US dollars and sterling. Transferable sterling can be obtained in New York and elsewhere at a significant discount. Consequently, transit traders everywhere are likely to offer Brazilian exporters higher cruzeiro prices for payment in sterling than for payment in US dollars.
- (2) Brazil is likely to receive additional sterling from increased sales to the sterling area itself, as well as from the manipulations referred to under (1). A third likely cause of increasing sterling receipts is that countries having payments agreements with Brazil (substantially all continental countries other than the BLEU) will be unable to prevent some of their imports from Brazil from being settled in sterling outside their payments agreements (irrespective of whether direct or transit imports are involved).
- (3) Because of an interesting clause in the Anglo-Brazilian Debt Liquidation Agreement, Brazil will be able to use substantially all of the sterling not received from the UK and its colonies to pay for additional direct imports from the UK. This is because the sterling to be used for liquidating the outstanding commercial debts to the UK does not include (a) Brazil's net sterling earnings from countries (including sterling area countries other than the UK colonies) with which Brazil has payments agreements, and (b) Brazil's gross sterling earnings from the Dominions.
- (4) Thus the likelihood that the new rates will enable the UK to increase its sales to Brazil is greater than might at first sight be apparent. These sales had been down almost to nil because the minimum annual liquidation quota of L 6 million, together with annual imports of sterling oil valued at a minimum of L 15 million, had absorbed practically all of Brazil's sterling earnings. Although no official data are at hand to corroborate this statement, it is clear from an official source (Board of Trade Journal of August 7, 1954) that in August 1954 no more than L 15 million out of a total of L 64 million covered by the Liquidation Agreement had actually been settled in sterling, bringing the cover provided up only to the applications for remittances of sterling that were approved by the Banco do Brazil through July 2, 1952. The matter of the frozen claims on Brazil is viewed with particular concern in the UK because of two factors: (a) if no basic changes in trade and payments between Brazil and the sterling area occur, the liquidation of the accumulated debts will take around ten years, even if UK sales to Brazil continue to be virtually non-existent; (b) about one-half of the Brazilian commercial arrears consists of claims of the UK Export Credits Guarantee Department, which has been severely criticized for the losses it has incurred in its operations with Brazil.

(5) The liquidation of Brazil's commercial arrears to UK exporters has been hampered by German transit sales of Brazilian products to the UK. These replaced direct UK imports from Brazil which would have provided that country with additional sterling earnings for use under the liquidation agreement. Also, it has been officially stated by the Bank of England that in 1953 the turnover in Brazilian coffees in the London commodity markets declined. This must similarly have prevented potential Brazilian sterling earnings. It may have been caused in part by the fairly general attempts of Continental countries to purchase directly from Brazil, through their own payments agreements, in order to work off the claims on Brazil that most of them had built up under those pacts.

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(6) In order to speed up the liquidation of Brazil's commercial arrears outside the Liquidation Agreement, the Bank of England is reliably reported to have sanctioned the trading of frozen claims at a discount, with the proceeds in cruzeiros to be used both for imports from Brazil and for investments in that country.

(7) In an article under the heading "UK Negotiations on 1955 Trade", the Financial Times of December 13, 1954, states the following: "So far as Brazil is concerned, the only move in prospect is an effort, to be made both through Rio and through Bonn, to limit the scope of recent German-Brazilian exchange operations, which, it is thought, have definitely harmed British interests by diverting Brazilian exports to Germany. The British Government is seriously concerned about this matter, and an approach to the Brazilian authorities will, it is understood, shortly be made by the UK Treasury representative, who is at present conducting the talks in Buenos Aires". The article appears to be based on a briefing by Treasury and Board of Trade officials.

(8) Belgium-Luxembourg is practically the only one of Brazil's European trading partners with which no payments agreement is currently in force. Trade is financed in Belgian francs on B Accounts in the BLEU. After 1952 exports to Brazil declined sharply, due to measures on both sides intended to enable a reduction in Brazil's considerable commercial and financial arrears in Belgian francs. The new exchange rates in Brazil are likely to reduce Belgium's imports of Brazilian goods payable in Belgian francs on Brazilian-held accounts. Therefore, Belgium's chances of restoring its exports to Brazil are reduced pro tanto.

Another aspect of Belgium's position is that, within the framework of the co-ordination of the commercial policies of the Benelux countries, Belgium probably cannot take a position diverging much from the Netherlands attitude. As far as the latter is concerned, we know officially that the Netherlands has again run up a considerable claim on Brazil, that Dutch exports are very low since Brazil has auctioned only negligible amounts of Netherlands agreement dollars, and that on January 10 the Netherlands Bank introduced a fresh linking arrangement for exports to and imports from Brazil. This arrangement amounts de facto to another unilateral devaluation of the cruzeiro.

(9) In December for the first time in many months the German claim on Brazil showed an increase instead of a decrease. The rise was from \$20 million to \$26 million. This, together with reports that German re-exports of cocoa to the US have been hampered by Brazilian regulations issued in August 1954 (Aviso 20 of Fiban), suggest that even prior to the revision of the export rates Brazil had already taken steps to curb German transit sales of Brazilian products.

(10) (Regarding the destinations of German re-exports of Brazilian products, there are reports from good sources that, up to August 1954, West Germany had resold about 15 per cent of its coffee imports from Brazil, mainly to Switzerland, Scandinavia and Eastern Europe, but not to the dollar area; and that as much as 40 or 50 per cent of the purchases of Brazilian cocoa had been re-exported, mainly to the dollar area. At that time the revision of Brazilian export rates made these transit deals unprofitable since the premium on the US dollars in Brazil then offset the discount on the Brazilian agreement dollar in Frankfurt.

Conclusion

It seems likely that the new Brazilian regulations were introduced after the UK Government discussed in Rio the measures that would have to be taken in order to restore the UK's traditional position in Brazil's foreign trade, and that the new regulations, if effective, will work primarily against West Germany but also against other Continental countries eager to promote their exports to Brazil by keeping their purchases from that country through their own payments agreements at the highest possible level. Initially, direct Brazilian exports to the Continent are likely to fall. The second stage then will be that the auction rates for Continental currencies in Brazil become prohibitive, and that consequently Continental exports to that country will fall.

January 27, 1955

Mr. Ivar Rooth

Irving S. Friedman and Jorge Del Canto

Subject: Brazil Exchange System

We are sending you herewith a memorandum prepared in our department, containing some factual background information on the Brazilian exchange system and payments position, which we believe answers the questions you raised. We have reviewed the memorandum and believe it may be useful to you in connection with tomorrow's Executive Board Meeting.

The memorandum contains some information which is confidential or secret and it is, therefore, only for your use and for that of Mr. Cochran. Moreover the information available pertaining to this matter is rather incomplete, and is partly based on unofficial material.

cc: Mr. Cochran



Office Memorandum

TO : Messrs. Irving S. Friedman and Jorge Del Canto DATE: January 27, 1955
FROM : Ugo Sacchetti and J.J. Thackara
SUBJECT: Brazil - Export rates - changes of January 18, 1955

The following factual information has been prepared to help in appraising the recent measures, which established fixed export rates for the four categories of export commodities, there being a discriminatory depreciation of about 4 per cent of the rates for the dollar and the pound sterling with respect to the other rates. More detailed information on some of the points is contained in the annex. ✓

Among the non-dollar countries with which Brazil has bilateral agreements, the United Kingdom and W. Germany can be singled out as particular cases. In the case of the United Kingdom the main feature to be noted is the fixed schedule of annual payments by Brazil, of £6 million annually as an agreed amortization commitment, on the consolidated past commercial indebtedness; and of £15 million annually for purchases of oil from the sterling area. In view of these contractual obligations, Brazil can only offer at exchange auction export proceeds in excess of the amounts indicated above.

In the case of W. Germany, no fixed payment schedule has been worked out to clear the large indebtedness derived from past commercial transactions. In September 1953 the unfavorable balance vis-a-vis W. Germany was about 80 million dollars. Both Brazilian and W. German authorities have shown an intention to reduce this balance as rapidly as possible. To facilitate this, the following three steps were taken: a) the W. German authorities were to authorize exports with an obligation to import from Brazil according to the ratio of 80 to 100; b) the Brazilian authorities would permit that a number of exports to W. Germany could be reexported to other non-dollar countries; c) the W. German authorities established, by unilateral action, a free market for the payment agreement dollars, which sold at a discount in the German market and tended to stimulate imports from Brazil. ✓

The only available data of some significance on the payments relations between Brazil and the two countries above are the following: In the case of the U.K. the commercial debts have been reduced from £65 million in September 1953 to £36 million in September 1954. The amount of pounds sterling auctioned in Rio de Janeiro was £240,000 both in September and October, which probably corresponds to a total amount of £800,000 for the whole country for each month. In November only £60,000 was auctioned in Rio (£200,000 in the country); whereas none was auctioned in December 1954. This may indicate a tightening of the payments position vis-a-vis the United Kingdom and may be due to the reported reduction in exports to the U.K. since September 1954. ✓

In the case of W. Germany, the indicated arrangement appears to have worked in accordance with the intentions of the authorities, since the unfavorable balance was reduced to \$63.0 million in March 1954; \$59 million in June 1954; \$35.0 million in September 1954 and \$26.0 million in December 1954.

This rapid reduction of the negative balance may have resulted in a worsening of the position vis-a-vis other countries and/or in a drastic reduction of the amounts of the respective currencies offered for auction because a proportion of Brazilian exports to these other countries may have taken place via W. Germany.

This may be the case of the Netherlands with which the Brazilian negative balance in the bilateral account deteriorated from \$1.4 million in December 1953 to \$10.3 million in June 1954. Practically no amount of Dutch currency was offered for auction during the second semester of 1954. A deterioration in the payments position has taken place vis-a-vis Denmark and Greece, whereas a reduction in the deficit vis-a-vis Italy has taken place, probably as a result of an arrangement whereby Italian exports were kept in a ratio of 70 to 100 with Italian imports from Brazil.

No recent data are available regarding the payments position vis-a-vis Belgium, Japan, France, among the major trading countries.

With regard to the pattern of Brazilian foreign trade, it should be noted that 25 payments agreements are in operation with countries outside the dollar area, including the major trading countries of the world.

As to the direction of import and export trade, the percentages indicated below, relative to the first semester of 1954, give an approximate idea. It would appear that since 1951, because of the payment crises affecting in turn different currencies and export receipts, no reasonably long period of time could be taken as representative for the direction of trade of Brazil.

	Imports		Exports
U.S.	33.4	U.S.	33.1
W. Germany	10.8	W. Germany	13.5
Dutch Antilles	7.4	France	6.6
Argentina	6.2	Argentina	6.5
France	4.6	U.K.	5.2
Japan	4.1	Japan	5.1
Sweden	3.6	Sweden	3.7
Holland	2.2	Italy	3.5
Italy	2.2	Holland	3.1
U.K.	1.1	Finland	2.9
Belgium	0.2	Denmark	2.3
Others	24.2	Belgium	1.4
		Others	13.1
	<hr/>		<hr/>
	100.0		100.0
	<hr/>		<hr/>

amounts had been more interesting

Ranges of Fluctuation of Auction Premia in the Exchange
of Rio de Janeiro During the Months Indicated Below

Date and Currency	Cruzeiros per unit of Currency ^{1/}				
	I	II	III	IV	V
<u>September 1954</u>					
U.S. \$, 120 days	26-37	37-58	75-89	88-103	151-156
£	27-36	38-50	45-54	82-95	111-177 <i>wider spread</i>
German \$	21-31	34-45	36-50	58-76	114-138 <i>lowest</i>
Jap. \$	17-34	26-40	33-42	61-81	183-227 <i>highest</i>
Fr. F.	21-30	31-51	42-49	51-122	108-173 <i>very thin wide spread</i>
B. F.	-	-	-	-	-
SKr.	-	-	-	-	-
<u>October 1954</u>					
U.S. \$, 120 days	30-62	36-49	87-116	89-124	158-168
£	27-54	36-43	47-80	75-96	126-154
German \$	23-41	34-44	43-55	65-80	111-126
Jap. \$	22-33	20-37	37-47	70-82	199-239
Fr. F.	26-41	42-56	47-121	78-220	111-185
B. F.	23-28	34-41	52-96	61-63	80-130
SKr.	-	-	-	-	-

^{1/} In the case of currencies other than the U.S. \$ or the agreement dollars, the actual premia have been converted into the ones included in the table on the basis of their par values with respect to the U.S. dollar.

Date and Currency	<u>Cruzeiros per unit of Currency</u>				
	I	II	III	IV	V
<u>November 1954</u>					
U.S. \$, 120 days	43-75	57-67	125-150	119-181	<u>180-236</u>
E (1 auction)	61-64	52-58	79-86	129-130	165
German \$	28-55	45-60	58-77	71-87	123-138
Jap. \$	32-36	45-49	53-60	90-160	169-180
Fr. F.	31-53	51-62	64-75	108-142	125-175
B. F.	33-34	43-55	53-70	60-66	95-105 ✓
SKr. (1 auction)	24	32-42	62-63	108-130	119 ✓
<u>December 1954 (1st 10 days)</u>					
U.S. \$, 120 days	50-52	63-68	126-141	192-198	185-186
E	-	-	-	-	-
German \$	30-32	51-60	50-76	70-90	135-141
Jap. \$	-	-	-	-	-
Fr. F.	32-35	37-44	53-65	80-106	174-187
B. F.	25-31	48-50	43-58	61-65	110-116
SKr.	-	-	-	-	-

Amounts of Various Currencies Auctioned in Brazil ^{1/}

(In Thousand Units)

	\$	£	Ger.\$	Jap.\$	F.F.	B.F.	SKr.	It.\$
Sept. 1954	16,000	800	4,080	1,700	760,000	-	-	2,700
Oct. 1954	15,000	800	3,960	1,005	550,000	40,000	-	1,800
Nov. 1954	8,000	200	3,600	600	420,000	40,000	10,000	1,350
Dec. 1954 (3 weeks)	6,000	-	2,700	400	630,000	50,000	-	900

^{1/} This table is based on data published in a private magazine. The amounts therein indicated have been calculated on the basis of the assumption that Banco do Brasil has continued to auction 50 per cent of the German agreement dollars in Rio de Janeiro and 50 per cent in Sao Paulo; and 30 per cent of all other currencies in Rio de Janeiro.

auction only for months

Has Brazil any promise to make changes without our approval? answer: no

R

ANNEX

1. Background of the currency discrimination

The present system of exchange auctions on the import side and export bonuses on the export side dates from October 9, 1953 (SUMOC Instruction No. 70). At that time there were two export bonuses, one of Cr\$5.00 per dollar for coffee exports and one of Cr\$10.00 per dollar for exports of products other than coffee. The bonuses applied to all currencies. The bonuses were fixed and therefore resulted in fixed effective export rates. The cross rates were orderly.

In August 1954 a change was made regarding export rates. The export bonuses of Cr\$5.00 and Cr\$10.00 per dollar were maintained but the effective rates of Cr\$23.36 (18.36 plus 5.00) and Cr\$28.36 (18.36 plus 10.00) now applied to only 80 per cent of export proceeds. The the remaining 20 per cent the equivalent of the free market rate applied. Export rates were now mixed fluctuating rates and the cross rates were broken since the free market rates varied as among the currencies, there being a single, free market rate for payment agreement dollars, specially calculated by the Bank of Brazil and related to auction rates. Since the free market rate for the U.S. dollar was more depreciated than for other currencies, the mixed fluctuating export rate for dollar exports was therefore more depreciated than for other currencies. In order to narrow the difference between the export rates for the various currencies resulting from the differences in the free market rates for these currencies, an administrative measure was adopted in September. (A copy of the document containing this decision has never been made available but the decision was advised to the staff by good authority.) The decision was to take the free market rate for U.S. dollars less 10 per cent, in computing the export rate for other currencies. By way of illustration, the following calculations are given:

Did we approve?

*all? only pay-
ment? 8/2*

\$ rate higher

not approved

The mixed fluctuating rate for exports of coffee in U.S. dollars:

80% at 23.36 (18.36 plus 5.00 bonus)	18.688
20% at free market rate of Cr\$74 per dollar	14.8
	<hr/>
Effective mixed fluctuating rate	Cr\$33.488
	<hr/>

The mixed fluctuating rate for exports of coffee in other currencies:

80% at 23.36 (18.36 plus 5.00 bonus)	18.688
20% at the free market rate of Cr\$74 per dollar less 10% or Cr\$66.6 per dollar	13.32
	<hr/>
	Cr\$32.008
	<hr/>

This measure has reduced the extent of the broken cross rates.

As a result of this administrative change in the computation of the mixed fluctuating export rate the discrimination by currency was diminished, in the case of certain currencies the reduction being considerable. In the illustration given above, the difference in the rate for dollars and for other currencies was 4.5 per cent. What is more, the mixed fluctuating export rate for other currencies were now the same since all of the computations were based on a free market for the U.S. dollar less 10 per cent.

In October and November, the free market rate for U.S. dollars began to depreciate. This, therefore, resulted in a more depreciated effective mixed fluctuating rate for all exports. In the case of coffee exports, this also meant that the dollar equivalent of the cruzeiro minimum price of coffee also declined, allowing the Brazilian exporter to sell at a lower price in dollars. Speculation increased in anticipation of a continued depreciation of the free market rate for dollars. Therefore, in November, in defense of the minimum price, the authorities fixed the rate for exports of coffee in dollars only. (SUMOC Instruction 109 of November 11, 1954.) This was brought about by establishing a new fixed bonus of Cr\$13.14 per dollar for coffee dollar exports. The authorities argued that this bonus gave the exporter as many cruzeiros as the mixed rate, calculated with the free market rate of the previous week. As a result, the new rate for coffee exports in dollars was Cr\$31.50, a slight appreciation from the previous rate for such exports. For coffee exports in other currencies, the rate later became more depreciated instead of less because of the continued depreciation of the market rate, and because the mixed fluctuating export rate continued to be calculated with the free rate for U.S. dollars less 10 per cent. As a result, there was later a discrimination against coffee exports in dollars. *(for about one month)* ^{higher}

This system continued until the new export rates of last week, which have been reviewed in the papers prepared by the staff. There are now two sets of four export bonuses for the four categories of exports, one set for dollars and sterling and the other set for other currencies. The differences between the effective rates for each category is approximately 4 per cent. It will be noted that this is less than the 4 1/2 per cent difference which existed previously.

✓ [The motivations behind the currency discrimination are not known.] One possible explanation is that the authorities had in mind the discrimination that existed after the change of last August, as mentioned above, which linked the export rate to the free market. There was currency discrimination in that period because the free market rates for the various currencies varied, the most depreciated rate being that for the U.S. dollar. However, the discrimination existing in the period immediately following the August changes was considerably narrowed, to 4.5 per cent, by the administrative measure taken basing the calculation on the free market rate for the U.S. dollar less 10 per cent. The authorities are certainly interested in stimulating dollar exports in view of the slump in coffee exports to the U.S. [The motivations behind the inclusion of the pound sterling in the discrimination are not known.] The authorities are probably also interested in stimulating exports to the U.K., ^{but clear} ^{certainly} Brazil has actually anticipated some of the repayments on the commercial debt by drastic cuts in imports. Brazil could have also been expected to include West Germany in the more depreciated rates if the repayment of debt were the motivation; on the other hand it appears that the repayment of the debt has been very rapid. The debt in the payment agreement with Germany is the only significant debt Brazil now has reportedly in her payment agreements. ^{highest} ^{higher} ^{UK}

2. Relations with West Germany

Trade with West Germany has expanded sharply in the last few years and West Germany now ranks as Brazil's second trading partner after the U.S. Payments are made through the payment agreement account, denominated in dollars. In addition to being a market for Brazil's exports, West Germany is also a go-between with the eastern European countries. In the first few years, Brazil accumulated a deficit in payments with West Germany and by 1952 the debit for Brazil in the payment agreement account reached a reported 120 million dollars. Subsequent modifications of the arrangements were motivated by a desire to reduce this balance. In 1952 a new agreement was entered into providing that 20 per cent of Brazil's export proceeds would be set aside for the repayment of this debt. The balance was steadily reduced and as of last September it stood at about \$35 million dollars. There have been informal reports that this debt is now even less. Under the 1952 agreement with West Germany the latter was permitted to re-export Brazilian products including coffee to a number of countries, including countries in Eastern Europe. Certain countries were excluded from this arrangement, including all dollar countries. Here again the motivation was the heavy surplus that had accumulated. It appears that the 1952 agreement has continued in effect. It expired in April 1953 and was renewed. Another part of the arrangements, one that caused the Brazilian authorities some concern, was the practice in West Germany of allowing holders of payment agreement dollars to sell them in the free market, which they did, at a discount, of as much as 20 per cent at one time, although now it is reported to be between 2 and 3 per cent. This was also aimed at reducing the surplus by stimulating imports into Germany. The buyers of these dollars were in a position to import more cheaply from Brazil. Last July West Germany reduced her imports of coffee from Brazil because of the high minimum price but it appears that the flow of imports has been restored. West Germany has shown increasing interest in investing in Brazil and special offices have been opened in Rio to examine projects.

3. Relations with the U.K.

Under the new arrangements, sterling proceeds of Brazil's exports are classed as transferable and can be used freely for payments within the sterling and transferable account areas. The transferability is automatic. U.K. trade with Brazil must be financed in sterling; otherwise the widening of the transferable account area has made the payments agreement largely inoperative. Through September 1954 exports to the U.K. were maintained and the repayment of the commercial debts was in advance of the agreed schedule of repayment. As of September 1954 the sterling debts had been reduced from £65 million to £36 million, with an original repayment of £10 million (purchased from the IMF). Since September exports to the U.K. have fallen sharply and auctions of sterling ceased in November 1954. The British authorities are reportedly concerned with the matter. It is reported that there has been a shift of Brazilian exports away from the U.K. and to West Germany as a result of the arrangements for payment with West Germany. In fact, the U.K. has been importing Brazilian products via West Germany.

Under the exchange of notes of October 1, 1953, it was agreed that the commercial debts of Brazil of some £65 million would be reduced at a rate of £6 million a year and more rapidly if exports to the U.K. exceeded given levels.

also UK & US see below

and other countries and the Fund what have we said to the Germans?

and with had

List of Questions in connection with the recent Brazilian Measure affecting the Exchange System

1. The following information is considered an essential minimum to permit an evaluation of the recent changes in the Brazilian exchange system.
 1. How were the export rates fixed for currencies other than the U.S. dollar after the August changes (mixing system)?
 2. Was any change introduced after the November measure (fixing of a fixed rate for coffee exports against dollars)?
 3. Was there a difference between the pound sterling rate and the rates for other currencies?
 4. What are the amounts of various currencies which have been offered for auction during 1954, month by month?
 5. What have been the auction premia resulting from auctions in various cities during 1954, month by month?
 6. Data on imports and exports by commodities and by countries during 1953 and the first semester of 1954. If possible, divide export commodities according to the present four categories.
 7. Data on balances in bilateral accounts with countries with which a payments agreement is in effect, at least by quarters, since October 1953.

Any other information on Brazilian trade and payments which is considered helpful for the evaluation of the present changes.

DECLASSIFIED

by Mr. Anoop Singh 8/30/87

Mr. Julio G. del Solar

January 25, 1955

J. J. Thackara

STRICTLY CONFIDENTIAL

Brazil: Coffee--Minimum Price Policy

DECLASSIFIED

Another impasse would appear to have occurred in the coffee export situation in Brazil. Dollar receipts were down to \$55 million in December 1954 and are reported to have been \$11 million for the first twelve days of this month. Although there are apt to be fluctuations in dollar receipts from month to month, these results are very disappointing and would indicate that coffee is still not flowing to the United States in a satisfactory manner. U.S. importers and roasters have shown an increased interest in Africans in the last few weeks and new crops of milds are now expected to come onto the market. Nevertheless, there is still a need for substantial quantities of Brazilian coffee. Stocks of green coffee in the United States are now down to 2-1/2 million bags, 1/2 million below normal. There has been the usual seasonal increase in coffee consumption in the United States and it therefore appeared that there was a very good chance that Brazil would be able to maintain the effective export minimum price while exporting a significant volume of coffee. This, however, does not seem to have occurred and while it might occur in months to come, Brazil may be approaching a situation where it cannot sustain such a low level of dollar exports without taking measures to stimulate coffee exports.

The support of the cruzeiro minimum price of coffee is effected by the Coffee Institute with the authority of the Commission for the Financing of Production and under the minimum price law of June 3, 1954. The cruzeiro equivalent of the US\$0.87 minimum is Cr\$20.32 per pound ($23.36 \times 0.87 = 20.32$). This price is for Santos 4's, with correspondingly lower prices for other grades. It appears that the Institute is required to buy at the minimum. The exporter can therefore sell his coffee to the Institute if he cannot obtain as good a price abroad. Since June 1954 the Institute has purchased coffee, but the quantities are not known. There have also been reports that in order to keep the flow of coffee in traditional commercial channels, special financing facilities have been made available to exporters.

Some of the alternative measures which the Brazilian authorities might adopt under present circumstances are the following:

(1) Depreciation of the export rate for coffee exports. This was the course followed last August when the new mixed fluctuating rate was introduced which represented a substantial depreciation. It would alleviate a good deal of the criticism which has been made by coffee exporters that the exchange rate is in effect an export tax. However, in view of the frequency of the changes of export rates, the authorities may be loathe to adopt this measure at this time. It might also require an upward shift of the other export rates. It would involve changes of the selling rates of exchange to avoid cruzeiro losses.

(2) Exports by the Brazilian Coffee Institute. In the event the world price fell below the support minimum of Cr\$20.32 a pound, the Institute would have to buy up coffee. In this event, some arrangement might be made whereby the Institute could sell the coffee abroad at the world market price and the cruzeiro loss somehow absorbed. Because of the possible magnitude of these losses, it is questionable whether the authorities would pursue this course, but it is not impossible. In 1952 the Bank of Brazil bought up a substantial proportion of the cotton crop and later sold it abroad at a loss.

(3) Lower the cruzeiro minimum. This measure would require legislation since the cruzeiro minimum was established by the law of June 3, 1954, applicable to the 1954/55 crop year. This alternative would arouse very great opposition from producers. Losses would be sustained by those having purchased at higher prices. It is doubtful whether the authorities would contemplate this alternative.

(4) Terminating the support buying by the Institute. Since the support buying by the Institute at the minimum price appears to be mandatory (Art. 3 of the law of June 3, 1954), the provisions of the law would have to be revoked. This would require legislation. If such purchases at the minimum were terminated, then coffee prices could be allowed to find their own levels and the cruzeiro minimum, which is established primarily for the domestic financing of coffee, would no longer be an export minimum price. The financing of coffee could continue on the present basis of 80 per cent of the established minimum of Cr\$20.32 per pound and it is not expected that the world price of coffee would decline to the point where the amount of the loan was in excess of the market value of the coffee. At the same time the price of coffee would be allowed to find its own level and presumably a price would be reached where the Brazilian coffee would be cleared. The danger of the measure is that if coffee prices are allowed to find their own level, there might be a very serious decline and this would affect the dollar receipts of all producing countries. How large a decline would occur cannot be estimated. Possibly it would be substantially less than the drop last August. Any decline would involve considerable losses for the middle men who purchased coffee at high prices and have been carrying coffee. In some cases these losses might be passed on to the Bank of Brazil and it is reported that the Bank has been financing coffee held by middle men and exporters with the understanding that the Bank of Brazil would take the actual coffee in repayment of the loan.

None of the above alternatives is attractive but there do not appear to be any others from which to choose.

The Cafe Government appears to have established a good deal of confidence but the underlying situation is still unsettled, particularly in view of the forthcoming Presidential elections next October 3rd.

EBS/55/4
Supplement 3

CONFIDENTIAL

January 24, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: Brazil - Further Information on Recent Changes in
Exchange System

An Executive Director has requested that EBS/55/4, Supplement 2, be placed on an agenda. Accordingly it will be brought before the Executive Board at an early meeting.

Brazil 1950

INTERNATIONAL MONETARY FUND

Records

Mr. Rooth has seen

MT



Office Memorandum

TO : Mr. Ivar Rooth

FROM : André van Campenhout *Av.*

SUBJECT : Brazil : Changes in Exchange System

DATE: January 22, 1955

I refer to the document from the Acting Secretary to the members of the Executive Board, EBS/55/4, Supplement 2, entitled : Brazil - Further Information on Recent Changes in the Exchange System, dated January 18, 1955 and received in my office in the course of January 19, 1955.

After consideration I have come to the conclusion that the procedure proposed to deal with this matter is not adequate under the circumstances. Neither could I concur with the decision proposed in the above mentioned document. I therefore request that the matter be brought to the Executive Board for discussion and decision at the most convenient time between January 25 and the end of the day of January 28.

cc: Secretariat
Mr. Paranagua

AvC:aa

Faint background text: "RAG CONTENT"

Mr. Ivar Rooth

January 22, 1955

André van Campenhout

Brazil : Changes in Exchange System

I refer to the document from the Acting Secretary to the members of the Executive Board, EBS/55/4, Supplement 2, entitled : Brazil - Further Information on Recent Changes in the Exchange System, dated January 18, 1955 and received in my office in the course of January 19, 1955.

After consideration I have come to the conclusion that the procedure proposed to deal with this matter is not adequate under the circumstances. Neither could I concur with the decision proposed in the above mentioned document. I therefore request that the matter be brought to the Executive Board for discussion and decision at the most convenient time between January 25 and the end of the day of January 28.

cc: Secretariat
Mr. Paranagua

AvC:aa

*Mr Rooth not present Friday
Jan. 28 but check with Mr
Cochran.*

*✓
avc*

Records

Brazil

CONFIDENTIAL

January 19, 1955

Dear Sirs:

With reference to your cables Nos. 31 and 32 of January 14 and 17, 1955, respectively, I regret to advise you that the test numbers of these cables do not appear to have been computed in accordance with the instructions printed in the test number code No. 15. These instructions require that numbers representing all currencies mentioned in the message should be taken. It seems that the test numbers as computed by you took into account a number corresponding to cruzeiros, only. On the other hand, in establishing the total of all amounts, prices should be disregarded. The rate of exchange is equivalent to a price for purposes of this calculation. Accordingly, the total of all amounts in the cables under consideration was zero.

I hope that this explanation may be helpful in computing the test number of future messages.

Yours faithfully,

Y. C. Koo

Y. C. Koo
Treasurer

Superintendencia da Moeda
e do Credito
Rio de Janeiro, Brazil

GEFink/NEROC/jbh
1/19/55

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE
For Immediate Attention

EBS/55/4
Supplement 2

CONFIDENTIAL

January 18, 1955

To: Members of the Executive Board
From: The Acting Secretary
Subject: Brazil - Further Information on Recent Changes in
Exchange System

The Fund has received a cable from Brazil which provides additional information on the recent changes in Brazil's buying rates (EBS/55/4 and Supplement 1) which were considered by the Executive Board on January 17, 1955 (EBM/55/3). This cable is circulated for the information of the Board as an appendix to the attached paper prepared by the staff on this further communication.

It is proposed not to place this matter on the agenda unless an Executive Director so requests by the close of business on January 24, 1955. In the absence of a request for formal discussion, a decision along the following lines will be inserted in the minutes of the next subsequent meeting of the Executive Board.

"The Fund notes the contents of cable No. 32 of January 17, 1955 from Brazil listing bonuses for exports payable in currencies other than convertible currencies and pounds sterling. The Fund is studying this matter further and will take action at the time of the forthcoming consultations under Article XIV."

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Brazil: Further Information
on Change in Exchange System

Prepared by the Western Hemisphere Department and
the Exchange Restrictions Department

(In Consultation with the Legal Department)

Approved by Irving S. Friedman and Jorge Del Canto

January 18, 1955

The Fund has received a further cable from Brazil providing additional information on its recent exchange change. (See Appendix I). According to this further communication, the export bonuses recently proposed (EBS/55/4 and Supplement 1) are only for exports payable in convertible currencies and pounds sterling. On the basis of the commodity classification contained in the previous communication from Brazil, bonuses for other currencies (expressed in cruzeiros per U.S. dollar) will be:

First category	Green coffee	11.86 cruzeiros
Second category:	Raw cotton, sawn pine wood, cocoa, carnauba wax, Brazil nuts, leaf tobacco and bananas	17.19 "
Third category:	Piassava, castor seeds, soya beans, hides and skins, sisal cocoa cake and paste	22.95 "
Fourth category:	Other products not included in the first three categories	29.67 "

These bonuses are all somewhat less (1.28 cruzeiros to 2.03 cruzeiros per U.S. dollar less) than the bonuses for the same categories of exports when paid in convertible currencies or pounds sterling. The resulting exchange rates for the four categories of exports

would be (about 4%) lower for other inconvertible currencies than the corresponding rates for exports paid for in convertible currencies and sterling.

This recent cable indicates not only that Brazil will have more export rates than indicated in the previous communication, but also that Brazil's exchange rate structure for exports will to some extent continue to be discriminatory by currencies. Firstly, under the new system, exports payable in pounds sterling, as well as convertible currencies, will receive the somewhat higher rates, whereas under the previous system the distinction was between convertible currencies on the one hand and all inconvertible currencies on the other, including sterling. Secondly, under the new system of fixed export bonuses, discrimination by currencies is a fixed amount or percentage. Under the previous arrangements, it varied depending upon the rate in the free market, with the result that because of the rise in the free market rate, the rate for coffee exports against inconvertible currencies became higher than the fixed rate against convertible currencies.

The Brazilian action is explicable in light of its existing shortage of both dollars and sterling and its concern with the use of certain of its exports in transit trade at the expense of its earnings of sterling and dollars. However, since all of Brazil's exports are affected, it may have financial and commercial implications for other members as well as affect the operation of other sectors of Brazil's exchange system. The staff believes that further examination of the implications of the recent changes in Brazil's exchange structure are necessary and is studying this matter further. It therefore recommends that the Executive Board take a decision along the following lines:

"The Fund notes the contents of cable No. 32 of January 17, 1955 from Brazil listing bonuses for exports payable in currencies other than convertible currencies and pounds sterling. The Fund is studying this matter further and will take action at the time of the forthcoming consultations under Article XIV."



THE INTERNATIONAL MONETARY FUND ARCHIVES RECORDS WITHDRAWAL NOTICE

The item identified below has been removed in accordance with the International Monetary Fund's IMF's Open Archives Policy (Decision No. 14498 – (09/126), adopted 12/17/09 and effective 03/17/10, as amended. This policy can be found on the International Monetary Fund website.

Archival Reference No.	40460
FILE TITLE & DATES	C/Brazil/410 Multiple Currently Practices, 1955

FONDS	Central Files, 1921-2004 (predominantly 1946-1993)
SERIES	Central Files, Country Files, 1937-2002
SUB-SERIES	Brazil Files, 1931-2000
BOX NUMBER	A40410-004
FILE NUMBER	12

CLASSIFICATION	Secret
DATE REVIEWED	2022-02-03

DETAILS OF WITHDRAWN MATERIAL	
DATE	1945 January 17, 1955
TYPE	Appendix Item
TO	Unknown
FROM	Unknown
SUBJECT/TITLE	Exports payable
NO. OF PAGES	1
AUTHORITY	Unknown
LANGUAGE	English

January 17, 1955

AIDE MEMOIRE

Changes in the Brazilian Exchange System

The changes which took place on:

January 5
February 25
March 25
March 31
June 2

do not require the Fund approval and Brazil did not consult with the Fund.

The changes which took place on the dates indicated below would have required prior Fund approval but Brazil did not consult with the Fund:

March 20
September 16
September 17
September 21
September 27
November 18

The change which took place on November 11 was communicated to the Fund after it was introduced.

Brazil consulted the Fund with regard to the change which was introduced on August 16, and on the change of the remittance tax which was introduced with a circular of September 13.

Copy in C/400
Exchange System
Policy

Brazil

Transmitted to all Members 2/14/55. Check Sheet
filed:

S 731 Transmittal Letters to Members
E. B. Decisions

January - June 1955

INTERNATIONAL MONETARY FUND

Executive Board Decision No. 388-(55/3)

Subject: BRAZIL - EXCHANGE SYSTEM

1. Brazil has requested the Fund's approval for changes in its exchange system which would classify exports into four categories with fixed bonuses applying to each category. The four categories and bonuses are: (1) green coffee - 13.14 cruzeiros; (2) raw cotton, sawn pine wood, cocoa, carnauba wax, Brazil nuts, leaf tobacco, and bananas - 18.70 cruzeiros; (3) piassava, castor seeds, soya beans, hides and skins, sisal, cocoa cake and paste - 24.70 cruzeiros; (4) other products - 31.70 cruzeiros.

2. The Fund does not object to these changes as an emergency measure, pending a subsequent review on the occasion of Brazil's forthcoming consultations under Article XIV on its transitional arrangements and other exchange matters.

The foregoing is the text of a decision of the Executive Board taken at Meeting 55/3, January 17, 1955.

Albert C. Frost,
Acting Secretary

SECRET

INCOMING MESSAGE

SECRET

*EBS/55/4 Sup. 2 +
EBS/55/4 - Corri. 1*

INTERNATIONAL MONETARY FUND
WASHINGTON, 25,D.C.

TO: INTERFUND
SUPERINTENDENCIA DA MOEDA E DO CREDITO
FROM: RIO DE JANEIRO, BRAZIL
FILING TIME: 1945 JANUARY 17, 1955
VIA: WESTERN UNION

019802

Number : - 32 -

BONUSES REFERRED OUR CABLE NO. 31 MUST BE UNDERSTOOD ONLY FOR EXPORTS
PAYABLE IN CONVERTIBLE CURRENCIES AND POUNDS STERLING. FOR OTHER
CURRENCIES BONUSES PER U. S. DOLLAR WILL BE :

- 1ST CATEGORY CRUZEIROS 11.86
- 2ND CRUZEIROS 17.19
- 3RD CRUZEIROS 22.95
- 4TH CRUZEIROS 29.67

640

*MADE IN U.S.A.
WESTERN UNION
FUND*

SUPERINTENDENCIA DA MOEDA E DO CREDITO

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

~~Test number checks:~~

Approved: *SEB*

Received in Code Room : 7:00 PM January 17, 1955

Brazil

EB5/55/4, Supp. 4 +

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

Car. 1

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND
Washington 6, D. C.

Dr. Octavio Gouvea de Bulhoes
Diretor Executivo

To: Superintendencia da Moeda e do Credito

Rio de Janeiro, Brazil

NO. 44

Reference your No. 31, January 14. Executive Board took following decision today:

Cleared with
Mr. Friedman
Mr. Del Canto
Mr. Frost

QUOTE 1. Brazil has requested the Fund's approval for changes in its exchange system which would classify exports into four categories with fixed bonuses applying to each category. The four categories and bonuses are: (1) green coffee - 13.14 cruzeiros; (2) raw cotton, sawn pine wood, cocoa, carnauba wax, Brazil nuts, leaf tobacco, and bananas - 18.70 cruzeiros; (3) piassava, castor seeds, soya beans, hides and skins, sisal, cocoa cake and paste - 24.70 cruzeiros; (4) other products - 31.70 cruzeiros.

2. The Fund does not object to these changes as an emergency measure, pending a subsequent review on the occasion of Brazil's forthcoming consultations under Article XIV on its transitional arrangements and other exchange matters. UNQUOTE

Rooth
Interfund

Prepared By F. Hodel

Department Secy's office

Date Jan. 17, 1955

AUTHORIZATION

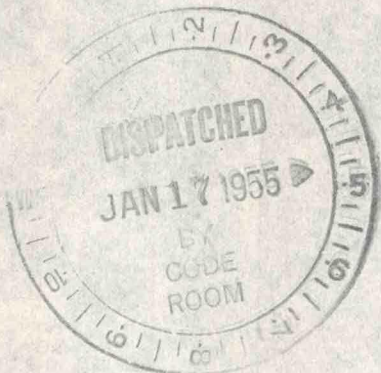
IVAR ROOTH
Signature

Second Signature When Required

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

FOR CODE ROOM

Time Received 4:45 PM
Time Dispatched 5:15 PM
Number of Words 143
Log 17149
Route ALL AMERICA
Operator AT



DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

For Immediate Attention

FOR
AGENDA

EBS/55/4
Supplement 1

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

To: Members of the Executive Board
From: The Acting Secretary
Subject: Brazil - Changes in Exchange System

The staff has prepared the attached memorandum on the exchange changes of Brazil notified to the Fund in a recent cable. The cable has been circulated to the Board as EBS/55/4. A Board meeting for this item has been scheduled for Monday, January 17, 1955 at 3:30 p.m.

INTERNATIONAL MONETARY FUND

Brazil: Exchange System

Prepared by the Western Hemisphere Department
and the Exchange Restrictions Department

(In Consultation with the Legal Department)

Approved by Jorge Del Canto and Irving S. Friedman

January 15, 1955

The Fund has received a cable from Brazil requesting approval for changes in the foreign exchange rates for exports (EBS/55/4). During 1954 Brazil had a serious payments problem, particularly in U.S. dollars, as a result of a decline in coffee exports. As a result, the value of exports for 1954 was probably substantially below the level of previous years. The level of imports in the first half of 1954 was maintained at a level which was higher than in either half of 1953. It is believed that imports continued at a high level in the second half of 1954, but because of the reduction in exports, particularly coffee exports to the United States, there was a dollar shortage of considerable magnitude. To help finance this shortage, Brazil has borrowed abroad, with the bulk of Brazil's gold reserves being put up as collateral. At the same time, Brazil has encountered difficulties with her minor exports because of increasingly rising production costs.

In August 1954, considerable incentive was given to exports of coffee and minor exports by the introduction of a change whereby for 20 per cent of export proceeds, exporters received a dollar rate equal to the free market rate. This was considered to be a built-in link with the local price level. The bonuses of Cr\$5.00 and Cr\$10.00 per dollar for coffee and minor exports, respectively, were also maintained. This modification of the exchange rate system on the export side resulted in two mixed fluctuating rates, one for coffee and the other for minor exports. Since the free market rate for U.S. dollars was considerably more depreciated than the free market rate for other currencies, it was decided that for the calculation of the mixed export rates for other currencies, the free market rate for U.S. dollars was to be taken, less 10 per cent.

The next significant change on the export side was taken in November 1954 when a fixed bonus of Cr\$13.14 per dollar was established for coffee exported for U.S. dollars. This resulted in a fixed rate of Cr\$31.50 per dollar for coffee exports in U.S. dollars only. The Fund was informed of this measure after it was put into effect. The rate of Cr\$31.50 per dollar was a slight appreciation from the previous mixed fluctuating rate.

As far as is known, the previous system was maintained for coffee exports in other currencies which had a fluctuating mixed rate somewhat more depreciated than the rate for coffee exports in U.S. dollars.

As for the minor exports, the cost of production continued to increase and exporters found increasing difficulty in marketing them. The proposed changes in the pattern of export rates are shown in the attached table with relation to the previous system. There will now be four export rates which are fixed rates, ranging from Cr\$31.50 per dollar for the first category to Cr\$50.06 per dollar for the fourth category. It will be noted that the effective rates for exports other than coffee have been raised. It is understood that the amounts of the subsidies reflect production costs and were fixed after discussion with the producers concerned. The fluctuating and mixed features of the rates in the previous system are abolished. The discrimination by currency is seemingly abolished and cross rates are now orderly.

The significance of the exports other than coffee is reflected in Table 2. Of total exports of \$731 million in the first half of 1954, \$471 million consisted of coffee exports, \$116 million consisted of cotton exports, and the balance of approximately \$144 million consisted of a very large number of minor exports. (See Table 2).

Because of the complexity of the exchange system and the lack of sufficiently detailed data on exchange transactions, weighted average export and import rates cannot be calculated at this time. However, it is known that the auction system has produced substantial exchange profits because of the high auction bids for such currencies as the U.S. dollar, pound sterling, German and Japanese payment agreement currencies, and several others. Even with the high export rate for Category IV exports, the exchange system may continue to yield cruzeiro revenue.

The staff considers that the proposed measure would help to meet Brazil's increasing export difficulties, resulting from higher domestic costs of production. In any case, however, the proposed measure would not seem to constitute a basic attack on Brazil's current exchange problems. Accordingly, the staff recommends the following decision for consideration by the Executive Board:

1. Brazil has requested the Fund's approval for changes in its exchange system which would classify exports into four categories with fixed bonuses applying to each category. The four categories and bonuses are: (1) green coffee - 13.14 cruzeiros; (2) raw cotton, sawn pine wood, cocoa, carnauba wax, Brazil nuts, leaf tobacco, and bananas - 18.70 cruzeiros; (3) piassava, castor seeds, soya beans, hides and skins, sisal, cocoa cake and paste - 24.70 cruzeiros; (4) other products - 31.70 cruzeiros.

2. The Fund does not object to these changes as an emergency measure, pending a subsequent review on the occasion of Brazil's forthcoming consultations under Article XIV on its transitional arrangements and other exchange matters.

Table 1. Table of Exchange Rates
(cruzeiros per dollar)

<u>Present System</u>	<u>Proposed System</u>
<u>Buying Rates</u>	<u>Buying Rates</u>
<u>18.36</u> Government and official receipts. Registered loans, credits and financing of "indubitable" interest.	<u>18.36</u> Government and official receipts. Registered loans, credits and financing of "indubitable" interest.
<u>31.50</u> (Cr\$18.36 plus 13.14 bonus) Coffee exports against convertible currencies.	<u>31.50</u> (Cr\$18.36 plus 13.14 bonus) Category I. Coffee exports.
<u>31.89</u> (80 per cent at Cr\$18.36 plus Cr\$5.00 per dollar; 20 per cent at average free market rate for the previous week, less 10 per cent) Coffee exports against inconvertible currencies.	<u>37.06</u> (Cr\$18.36 plus 18.70 bonus) Category II. Raw cotton, sawn pine wood, cocoa, carnauba wax, Brazil nuts, leaf tobacco and bananas.
<u>35.89</u> (80 per cent at Cr\$18.36 plus Cr\$10.00 per dollar; 20 per cent at average free market rate for the previous week, less 10 per cent) Exports other than coffee, against inconvertible currencies.	<u>43.06</u> (Cr\$18.36 plus 24.70 bonus) Category III. Piassava, castor seeds, soya beans, hides and skins, sisal, cocoa cake and paste.
<u>37.29</u> (80 per cent at 18.36 plus Cr\$10.00 per dollar; 20 per cent at average free market rate for the previous week) Exports other than coffee, against convertible currencies.	<u>50.06</u> (Cr\$18.36 plus 31.70 bonus) Category IV. Other products not included in the first three categories.
<u>73.00</u> Fluctuating free market rate (as of January 11, 1955) All incoming capital except registered loans of "indubitable" interest. Travel exchange and other items not dealt with in official market.	<u>73.00</u> Fluctuating free market rate (as of January 11, 1955) All incoming capital except registered loans of "indubitable" interest. Travel exchange and other items not dealt with in official market.

Table of Exchange Rates (Cont'd)

(cruzeiros per dollar)

No change in the proposed system.

Selling Rates

18.82

Newsprint.

20.70 (Cr\$18.82 plus 10 per cent remittance tax)

Theoretical rate, added to auction bids to obtain effective rates for imports.

33.82 (Cr\$18.82 plus Cr\$15.00 surcharge)

Some government payments. Amortization and interest on registered loans, or credits of "indubitable" interest to the national economy. Earnings on registered capital of "special" interest up to 10 per cent a year. Repatriation of capital of "relevant" interest after 10 years, up to 10 per cent a year. Imports of wheat. Imports of coal. Certain publications. Certain petroleum products, including crude petroleum, aviation gasoline and other products.

Machinery considered of highest essentiality.

Miscellaneous service payments.

36.82 (18.82 plus Cr\$18.00 surcharge)

Certain petroleum products (including motor gasoline, lubricating oil and other petroleum products).

Certain banking remittances.

69.70 (Cr\$18.82 plus 10 per cent remittance tax plus Cr\$49.00 auction bid)

Category I imports: Agricultural supplies.

Fluctuating free market rate

Amortization and repatriation of registered capital of "special" interest and of "relevant" interest, and unregistered capital transfers and earnings thereon not benefiting from other rates. Tourist expenditures and other invisible payments not made at the more favorable rates.

81.70 (Cr\$18.82 plus 10 per cent remittance tax plus Cr\$61.00 auction premium)

Category II imports: Codfish, ores, scrap metals, other raw materials.

Table of Exchange Rates (Cont'd)

(cruzeiros per dollar)

Selling Rates

152.70 (Cr\$18.82 plus 10 per cent remittance tax plus Cr\$132.00 auction premium)

Category III imports: Wood, industrial machinery (railway rolling stock, textile machinery, industrial vehicles, aircraft, diesel engines, generators).

183.70 (Cr\$18.82 plus 10 per cent remittance tax plus Cr\$163.00 auction premium)

Category IV imports: Fresh fruits, office machinery, and certain consumer goods.

210.70 (Cr\$18.82 plus 10 per cent remittance tax plus Cr\$190.00 auction premium)

Category V imports.
Commodities not included elsewhere.

Note:

The auction premiums on which some of the selling rates are based are those for the U.S. dollar in Rio de Janeiro on December 21, 1954. The minimum bids for dollars for the five import categories were set by the Superintendency of Money and Credit on September 16, 1954 at Cr\$15, 18, 23, 30 and 75, respectively. For U.S. dollars, German "dollars", sterling, Japanese "dollars", etc., the auction premiums have been in excess of these minimums. For other currencies, and for government imports of the respective categories, the minimums in practice establish the effective rates.

Table 2. Brazil: Foreign Trade - Exports by Commodity

(Millions of U.S. dollars)

Year	Total	Coffee	Cotton	Cacao	Pine Wood	Tobacco	Hides Skins	Carnauba	Other
1951	1,770	1,059	214	69	51	19	39	17	302
1952	1,419	1,046	35	42	32	19	12	12	220
1953	1,745	1,181	122	83	51	23	20	17	248
1st Half	624	448	18	20	18	6	6	5	103
2nd Half	1,121	733	104	63	33	17	14	12	145
1954									
1st Half	731	471	116	24	18	5	6	9	82

Note: Conversion rate: Cr\$18.36 per dollar.

Source: Comercio Internacional, Boletim Mensal do Banco do Brasil.

APPENDIX

Changes during 1954

January 5

Decree No. 34,893 was issued, containing the regulations pursuant to Law No. 2145 of December 29, 1953.

February 25

Instruction No. 85 of the Superintendency of Money and Credit was issued, increasing the maximum amount of cover that any one bidder could purchase at each exchange auction from US\$10,000, or the equivalent in other currencies, to US\$50,000, which could not be exceeded unless it could be proved to the satisfaction of the Council of the Superintendency that a larger quota was necessary.

March 20

Instruction No. 87 of the Council of Superintendency of Money and Credit was issued, approving a new classification of imports pursuant to Instruction No. 70 of October 9, 1953 which established the auction system for private imports.

March 25

Instruction No. 88 of the Council of Superintendency of Money and Credit was issued, altering the period of validity of the exchange certificates issued by the Banco do Brasil from 8 to 30 days.

March 31

Instruction No. 89 of the Council of Superintendency of Money and Credit was issued, extending the period of payment to the Banco do Brasil for exchange certificates, from 2 to 3 days.

June 2

The Brazilian Government raised the minimum export price of coffee to US\$0.87 per pound, for the crop year beginning July 1 and ending June 30, 1955.

August 16

Instruction No. 99 of the Superintendency of Money and Credit established new export rates for coffee and other products. The bonus of Cr\$5 per dollar paid to coffee exporters and Cr\$10 per dollar paid to exporters of other products now applied to only 80 per cent of the value of the exports, instead of 100 per cent as previously. On the remaining 20 per cent, a premium equal to the difference between the official rate of exchange and the average free market rate for the previous day was to be paid.

September 13

Instruction No. 673 of the Ministry of Finance raised the remittance tax applicable to the bulk of payments in the official market, but not to payments in the free market, from 8 per cent to 10 per cent effective on January 1, 1955. Revenues from this increase were to be earmarked for the electrification fund.

September 16

Instruction No. 103 of the Council of Superintendency of Money and Credit was issued. The minimum bids in the auctions for the five import categories were raised as follows:

Category I	from Cr\$10.00 to Cr\$15.00
Category II	from Cr\$12.00 to Cr\$18.00
Category III	from Cr\$15.00 to Cr\$23.00
Category IV	from Cr\$20.00 to Cr\$30.00
Category V	from Cr\$50.00 to Cr\$75.00

September 17

Instruction No. 104 of the Council of Superintendency of Money and Credit was issued. For purposes of calculating the mixed export rates, the free market rate was to be the average buying rate for the previous week.

September 21

Circular No. 9 of the Banking Inspection and Control Division of the Banco do Brasil was issued. Premiums of Cr\$15 and Cr\$18 were established for certain official and other essential payments, and went into effect immediately except for petroleum products, in which case they were to go into effect at the beginning of 1955.

September 27

Circular No. 45 of the Banking Inspection and Control Division of the Banco do Brasil was issued. Small expenditures of banks abroad and interest on exchange operations were to be subject to the Cr\$18.00 per dollar surcharge instead of Cr\$12.00 per dollar.

November 11

Instruction No. 109 of the Council of Superintendency of Money and Credit was issued. This established a fixed bonus of Cr\$13.14 per dollar, for coffee exports in convertible currencies only, resulting in a new fixed rate of Cr\$31.50 per dollar.

November 18

Instruction No. 110 of the Council of Superintendency of Money and Credit was issued, introducing certain changes in the categories of import goods.

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

EBS/55/4

CONFIDENTIAL

January 15, 1955

TO: Members of the Executive Board

FROM: The Acting Secretary

SUBJECT: Exchange System - Brazil

The attached cable received from Brazil is circulated for the information of the Executive Board. The staff is preparing a paper on this subject which will be circulated to the Board as soon as possible.

Att: (1)

TO: INTERFUND

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

FILING TIME: 1632 JANUARY 14, 1955

VIA: WESTERN UNION

019789

NUMBER: - 31 -

Brazilian Government is submitting for the approval of International Monetary Fund following changes in existing exchange system: exports would be classified in 4 categories corresponding for each one following fixed bonuses per U.S. dollar or equivalent in other currency:

1st - Cruzeiros 13.14 for green coffee as provided Resolution 109 of Superintendencia da Moeda e do Credito, Rio de Janeiro, Brazil:

2nd - Cruzeiros 18.70 for raw cotton, sawn pine wood, cocoanuts, carnauba wax, brasil nuts, leaf tobacco and bananas:

3rd - Cruzeiros 24.70 for piassava, castor seeds, soya beans, hides and skins, sisal, cocoanuts cake and paste:

4th: - Cruzeiros 31.70 for other products not included above

673

SUPERINTENDENCIA DA MOEDA E DO CREDITO

Test number checks:

Received in Code Room: 4:40 PM January 14, 1955



Office Memorandum

N. B. not based on notes and dictated a few hours later and therefore may have some inaccuracies

I.S.F.

TO : Files

FROM : Irving S. Friedman

SUBJECT : Brazil

DATE: Jan. 15, 1955

Mr. Paranagua telephoned the results of his telephone conversation with Mr. Dantas in Rio. He said that Mr. Dantas informed him that it was intended to have the new regulations come into effect on Monday, but that he, Mr. Paranagua, advised Mr. Dantas to advise Mr. Bulhoes to delay such action until Tuesday in order to give the Fund time for prior action. Mr. Paranagua said that he would therefore wish to have a Board Meeting on Monday afternoon. He noted that this was in reply to the first two questions suggested by the staff on the previous evening and he then went on to give the answers to the other questions.

As to how the new action compared to the old bonuses, he said that the old bonuses except for coffee had been based on a mixing system (80-20) and the latest rates cited was 73.(?)

The new regulation involved all exports to all countries.

There had been no negotiations with any country.

There was no indication being given as to whether the measures being taken were temporary or not. The new Law which was now in Congress and hoped to be passed by the end of the month was to be in effect for one year.

The reason why the action was being taken now was to avoid speculation. The decision had been taken on Thursday night at 8 p.m. and this was why the Fund had not had more notice. The export situation was "not too brilliant". The Banco de Brasil during the first twelve days of January had purchased 11 million (12 million?) dollars and sold 15 million. It was hoped that this action would avoid an exchange crisis for a month or two.

As to the division among categories, this had been based on discussions with producers at which it had been decided what amounts were actually needed.

As to the financing and the inflationary effects, Mr. Dantas had indicated that there was not much change, primarily because the coffee rate was unchanged and the second class was already being paid. What was really new was the third and fourth class, which only involved small amounts. It was not expected that there would be any "big change" in the inflationary picture from this action. The necessary funds were already available from the collection of premium from the auction system.

Mr. Paranagua said he thought that the point to be emphasized was that the establishment of fixed bonuses for commodities other than coffee was merely following the pattern which had been set for coffee. Mr. Paranagua indicated that he had not yet received the cable. I assured him that instructions had been given for its circulation this morning and said that this matter would be checked to make sure the cable would be circulated.

SECRET

INCOMING MESSAGE

SECRET

EBS/55/4

INTERNATIONAL MONETARY FUND
WASHINGTON, 25, D.C.

G. L. Wiles

TO: INTERFUND
SUPERINTENDENCIA DA MOEDA E DO CREDITO
FROM: RIO DE JANEIRO, BRAZIL
FILING TIME: 1632 JANUARY 14, 1955
VIA: WESTERN UNION

019789

Number: - 31 -

BRAZILIAN GOVERNMENT IS SUBMITTING FOR THE APPROVAL OF INTERNATIONAL MONETARY FUND FOLLOWING CHANGES IN EXISTING EXCHANGE SYSTEM : EXPORTS WOULD BE CLASSIFIED IN 4 CATEGORIES CORRESPONDING FOR EACH ONE FOLLOWING FIXED BONUSSES PER U. S. DOLLAR OR EQUIVALENT IN OTHER CURRENCY :

1ST - CRUZEIROS 13.14 FOR GREEN COFFEE AS PROVIDED RESOLUTION 109 OF SUPERINTENDENCIA DA MOEDA E DO CREDITO, RIO DE JANEIRO, BRAZIL:

2ND - CRUZEIROS 18.90 FOR RAW COTTON SAWN PINE WOOD COCOANUTS CARNAUBA WAX BRASIL NUTS LEAF TOBACCO AND BANANAS:

3RD - CRUZEIROS 24.70 FOR PIASSAVA CASTOR SEEDS SOYA BEANS HIDES AND SKINS SISAL COCOANUTS CAKE AND PASTE:

4TH - CRUZEIROS 31.70 FOR OTHER PRODUCTS NOT INCLUDED ABOVE

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SUPERINTENDENCIA DA MOEDA E DO CREDITO

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

Test number checks:

Approved: *JEB*

Received in Code Room: 4:40 PM January 14, 1955