

To Brazil file  
INTERNATIONAL MONETARY FUND

COPY

CONFIDENTIAL

WASHINGTON 25, D.C.

Executive Director

September 21, 1956

Dear Mr. Rooth,

As you are aware the new Brazilian Customs Tariff was presented to the Brazilian Congress and it is expected its early approval.

It is the intention of the Brazilian Government to put the new tariff into force as soon as it is approved. That is the commitment of the Government in order not only to obtain the congressional procedure of urgency but also because the revenue of the new tariff is an important part of the fiscal policy in order to reduce the budgetary deficit and ultimately to have a balanced budget.

The reduction of the deficit is one of the major steps taken by the Government in its fight against inflation. The Government is determined to stop inflation and reestablish the equilibrium of the Brazilian economy. In order to have an immediate enactment of the new tariff after Congressional approval, the Brazilian Government will present its case to the Contracting Parties of the GATT.

In presenting its case at Geneva, the Brazilian Government is perfectly aware of the implications of the tariff with regard to the present exchange system. At this moment there will be no exchange reform but a simple adaptation of the Five Categories which will represent a substantial simplification of the exchange system so far as it concerns imports. Instead of five categories of imported goods there will be an amalgamation resulting into two categories of imports: Essential and non-essential goods to be imported.

The amalgamation of five into two categories does not involve any modification of the exchange allocations for the auctions, which will continue on the basis of the exchange available. The abolition of the five categories will also result in the elimination of the shifting of goods between the categories. A further simplification is the elimination of the minimum "agios" at the auctions. As for the exchange rate for the payment of "ad valorem duties" there will be a single rate resulting from the average rate of the category of essential goods.

The case before GATT involves the necessity for granting Brazil a waiver which would enable the Government to the full application of the new tariff as soon as it becomes the law at the country. In so far the obligation to negotiate is concerned Brazil will enter immediately after into negotiations with the Contracting Parties in order to give the necessary compensations as a consequence of the modifications of the present binding of the existing tariff.

The case before the Fund relates to the adaptation of the present exchange system to the new Customs Tariff. The Brazilian Government will seek the approval of the Fund for the steps which ought to be taken. These steps will be taken within the framework of the present system without involving an exchange reform despite the substantial simplification which will result.



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**Reviewed:** August 2021



# Office Memorandum

R

SECRET

TO : Mr. Ivar Rooth  
Mr. H. Merle Cochran

DATE: August 28, 1956

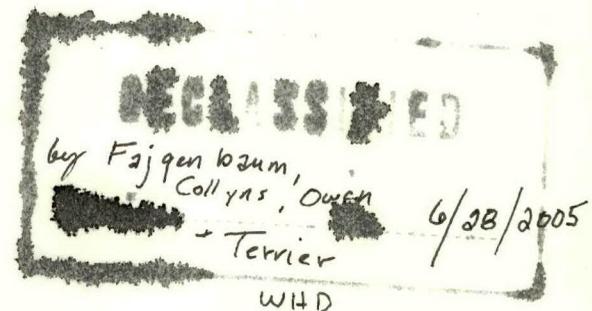
FROM : Jorge Del Canto

SUBJECT : Brazil

I notice, by a memo of Mr. Paranaguá to the Acting Secretary, that Mr. Gouvea is leaving shortly on Fund business. Although I have not talked to either one of them, as yet, I would like to pass on to you the following information contained in a personal letter from Eugenio Bertens, dated August 25:

"Last week we had among us (in Paraguay) Mr. Garrido Torres of the National Economic Council of Brazil, who has been participating in the Committee of Trade Experts of CEPAL. Garrido had to leave abruptly and expressed to me that he had been called to Rio to work on a projected exchange reform. The President of Brazil passed through Chile--on the way back from Panama--and was very well impressed by what Chile has been doing..."

If we were to believe in cycles, this information might not be too far off, since it was late August and early September, last year, when we struggled with the last abortive exchange reform.



R

June 12, 1956

MEMORANDUM

CONFIDENTIAL

To: Mr. Jorge Del Canto

From: Gordon Williams

Subject: Miscellaneous Information

I was informed recently, on a confidential basis, that Prebisch was considering stopping over in Rio on his way to Europe next month to discuss monetary problems with the Brazilian authorities. There does not seem to be much we can do about it, and as I said, we must not indicate that we know of the proposal, but I felt you should be aware of it.

*No object*

Apparently Colombia has also approached ECLA for some sort of monetary advice. On this I am not well informed, since I obtained the information rather indirectly.

Our friend Karasz is being sent to Costa Rica later this year. We have been asked to suggest a replacement for him in Bolivia, but so far have not come up with any ideas despite putting the question up to Lieftinck, Åkermalm and the new head of the Federal Reserve in New York, Al Hayes.

Copies to

- The Managing Director
- The Deputy Managing Director
- Mr. E. M. Bernstein

INFORMATION COPY



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**Number of Pages:** 4  
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**Reviewed:** August 2021

# Costanzo's impression after visit

28/56  
15 R

## Brazil

Not much will be done to stop infl. Greater pace <sup>than</sup> in 1955

Perhaps better in 1957. Better attitude in BdB

Cash def. of Federal Govt \$ 10 bill incl auth. (Started with 30 <sup>1955</sup> nothing for <sup>part of</sup> São Paulo. Last year 6 bill

opposition among industr & newspapers against inflation

Disorganization in the country, lack of coord. Decisions by accident

Alkmin attacked as incompetent. Rumours about a Paulista

used to be leader in Congress. <sup>This works better & the same.</sup> Overworked. A. is a politician

Surplus of iron tubes in Minas that they want to export

## Paraguay Lack of \$ and £

\$4 in Aug.

Will ask for 1 1/2 drawing  
Can't pay 25% now.

Quota 3 1/2, will have a higher one.

Chile: Slipping away from a free market. 490 considered a more fixed rate.

*R*



*Superintendência da Moeda e da Crédito*

Rio de Janeiro, May 29, 1956.

DE/DIVIN/Cta. 62/56.

Dear Sir,

Enclosed please find copy of Resolution number 131 issued by this Superintendency.

Very truly yours,

DEPARTAMENTO ECONÔMICO  
Divisão de Assuntos Internacionais

<i>Herculano Borges da Fonseca</i>	<i>Fernando Bergstein</i>
Herculano Borges da Fonseca	Fernando Bergstein
Department Head	Division Chief

Encl.

Received in Correspondence Sec. JUN 11 1956  
 Received from Translation Sec. JUN 13 1956

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

The Secretary  
 International Monetary Fund  
 1818 H. Street, N.W.  
 Washington 25, D.C.  
U. S. A.

## SUPERINTENDENCY OF MONEY AND CREDIT

INSTRUCTION NO. 131

The Superintendency of Money and Credit, in conformity with the decision of the Council taken at its meeting of today, resolves, in accordance with Article 3, clause "h" and Article 6 of Decree-Law No. 7,293 of February 2, 1945, and considering the necessity of creating favorable conditions for the exportation of Brazilian products, as well as the advantage of unifying the provisions now in force concerning the payment of bonuses to exporters as referred to in Article 9 of Law No. 2,145 of December 29, 1953, to issue the following instruction:

- I. The following fixed bonuses per U.S. dollar or the equivalent in other currencies shall henceforth be applied to the export products classified in the four categories listed below:

## Category 1 - for coffee beans:

in convertible and partly convertible  
currencies..... 18.70

in other currencies..... 17.19

Category 2 - for raw cotton, cocoa beans, cocoa paste,  
all types of crude leather:

in convertible and partly convertible  
currencies..... 24.70

in other currencies..... 22.95

Category 3 - for cotton linters and spinning scraps, peanuts, balata, bananas and other table fruit, Brazil nuts (unshelled and shelled), cedar and other unfinished wood, in logs and sawn, carnauba wax, "ouricuri" or "licuri" wax, tea, yerba maté, ground or processed, manioc flour, beans, soybeans, leaf or string tobacco, raw wool, washed or unwashed, of any type, "macaranduba" (rubber), magnesite (natural magnesium carbonate), castor or ricinus seeds, cocoa butter or cake, menthol and dementholized oil, millet, iron ore, manganese ore, essence of rosewood oil,

"oiticica" oil, sassafras oil, raw hides of any type, piassava, sawn pine (including narrow strips and small blocks), piezoelectric quartz and raw quartz (rock crystal), sorva (rubber):

in convertible and partly convertible currencies..... 36.64

in other currencies..... 34.41

Category 4 - for all other products not included in the three preceding categories:

in convertible and partly convertible currencies..... 48.64

in other currencies..... 45.92

II. In the licensing of exports, the Foreign Trade Department shall always take into account factors for safeguarding the interests of domestic consumption, and when manufactured goods are involved, shall make the licenses subject to proof furnished by the parties concerned that domestic labor and raw materials constitute approximately 70% (seventy per cent) of the total production cost.

III. The present Instruction shall not change the existing regulations concerning cotton operations of the 1955/56 crop of South and North Brazil.

IV. The liquidation of exchange contracts based on merchandise sold by the Commission for Cotton Affairs and Other Products prior to the effective date of this Instruction shall be handled in accordance with the system which prevailed prior to the date of the closing of the sales by the above-mentioned Commission.

V. The present Instruction shall enter into force on the date of its publication in the Diário Oficial, and shall be applicable to exports which are shipped as from the date of its entry into force.

VI. Instructions No. 112, No. 114, No. 115, No. 117, No. 121, and No. 130 of January 17, 1955, February 5, 1955, May 3, 1955, June 22, 1955, July 26, 1955, and April 17, 1956, respectively, are revoked.

Rio de Janeiro, May 17, 1956

SUPERINTENDENCY OF MONEY AND CREDIT

/s/ Eurico de Aguiar Salles  
Executive Director

/JRAP.

Time May 28 1955

BRAZIL

Appeal for Confidence

The tired lines of three and a half months' hard work plain on his face, President Juscelino Kubitschek sat down at a polished oak table in Catete Palace behind a radio microphone one evening last week. He glanced down the table at the assembled members of his Cabinet, checked the time, then picked up a sheaf of papers and began to read what amounted to a nationwide appeal for patience and confidence. The slow, forceful voice was clearly heard and clearly understood. "This government took over with two main objectives: to fight inflation and to develop the country's resources fully."

Kubitschek's battle against inflation is still too recent to have achieved reportable results, the bulk of his speech dealt with development of resources. The President had bright news of Brazil's petroleum industry. In 1955, he recalled, the country produced 2,000,000 barrels of oil, enough for only ten days' use. This year the Bahia oilfields will pump out more than 5,500,000 barrels, enough to supply the country for a month (at the present rate of consumption). Next year production of 15 million barrels is expected. And he announced new exchange rates are being drawn up to encourage exports.

The President talked of new hydroelectric projects, highway construction and agriculture, then came to the main point of his talk. Faced with growing public uneasiness over inflation and opposition claims that he is little more than a puppet manipulated by War Minister Henrique Teixeira Lott (TIME May 21), Kubitschek assured his countrymen that he had "enough authority, energy and fighting spirit to guarantee a full five-year term which will not fall into the abyss of government marked by precariousness and instability." Raising his voice, he added, "From the people I deserve confidence, and I ask that they wait for the results of my work. I shall not fail your trust nor disappoint your hopes."

First political reaction to Kubitschek's speech was a general agreement that his frankness had succeeded where flowery rhetoric would have failed. But the opposition soon served notice that it was in no mood for a moratorium on criticism. Editorialized the anti-Kubitschek daily *O Estado de São Paulo*: "The people still hope for better days. It would be good if those better days come soon, before despair has won the souls of all. Patience has its limits—and hope is not eternal."

OFFICIAL

OUTGOING MESSAGE

OFFICIAL

FOR PREPARING OFFICER

- Night Letter
- Ordinary
- Code

SPECIAL INSTRUCTIONS

INTERNATIONAL MONETARY FUND  
WASHINGTON 25, D.C.

Mr. Eurico Aguiar Salles  
 Diretor Executivo  
 Superintendencia da Moeda e do Credito  
 Rio de Janeiro, Brazil

No. 3.

Reference your request received May 19 through Mr. Paranagua, Executive Board took following decision today:

QUOTE Brazil has requested Fund approval of changes in its export bonus arrangements involving both the commodity classification and rates of bonuses. The Fund does not object to these changes. It will review these measures during the forthcoming Article XIV consultations UNQUOTE

Rooth  
Interfund

EBW/56/32, 5/23/56  
 EBS/56/20, 5/21/56

ered with Mr. Horne

Drafted By E. Model

Department Secy's Office

Date May 22, 1956

AUTHORIZATION

/s/ Ivar Rooth  
Signature

Second Signature When Required

FOR CODE ROOM

Time Received 5:35 PM  
 Time Dispatched 5:55 PM  
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 Route ALL AMERICA  
 Operator GEB

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



DO NOT TYPE BELOW THIS LINE

INTERNATIONAL MONETARY FUND

May 21, 1956

Mr. Rooth:

With reference to your questions on the CACEX arrangements, we have prepared the attached memo for your benefit. A copy is being sent to Legal and ERD to have them look into these questions.

A handwritten signature in blue ink, appearing to read 'J. Del Canto', with a stylized flourish extending to the left.

J. Del Canto

Jorge Del Canto



# Office Memorandum

To Br. file

R

TO : Mr. Ivar Rooth  
FROM : Jorge Del Canto  
SUBJECT : Brazil

DATE: May 21, 1956

With reference to your interest on the CACEX system, all we have available of a recent nature is contained in two recent letters from Costanzo dated April 28 and May 11. The corresponding paragraphs read as follows:

April 28, 1956:

"ERD will probably be interested in knowing that in addition to the regular categories for exports a whole complex of export rates has arisen over the 50.06 rate ranging to as high as 68.75. CACEX has evolved a system of symbolic purchase transactions outside the exchange rate framework under the SUMOC regulations. CACEX agrees to purchase from exporters at an agreed cruzeiro price provided the exporter undertakes to export at a minimum foreign exchange price as agent for CACEX. Commodities handled through this system include bananas, mandioca flour, mandioca, soya beans, tobacco, and papaya. In the case of pine lumber CACEX agrees to buy at a cruzeiro price determined by applying rates of 50, 55 and 60 cruzeiros per U.S. dollar to the foreign exchange proceeds. These operations are, of course, financed from the agios account. I understand there is a real possibility that this system will also be applied to cotton."

May 11, 1956:

"The 'Tosta-Filho' exchange system which I described in a previous letter has been extended to cotton. CACEX fixes a minimum price in cruzeiros which will be paid to the exporter for the different grades of cotton and also a minimum export price in foreign exchange which the exporter is required to surrender. This minimum export price varies daily and is based on the New York commodity exchange. The cruzeiro price assured to the exporter and the minimum export price in foreign exchange result in an effective rate for cotton exports varying from Cr\$48 to 56 to the dollar for type 5 cotton. The spread is due to the establishment of different minimum export prices in foreign exchange depending on the currency area. The lower minimum export price and hence higher effective rate applies to the dollar, ACL area and France and Austria. There are three other areas. This information, i.e. discrimination by currency areas, is considered secret and was not obtained officially. If action is taken on this matter before I get back, I would suggest that the first step be one of officially requesting information on the recently-announced arrangements for the export of cotton. All of the special arrangements by CACEX have been without reference to SUMOC. These arrangements are considered purely internal

2

secret  
Have you done it?

transactions not involving the exchange rate. Incidentally, any proceeds obtained by the exporter over and above the minimum export price is sold to the Banco do Brasil at the regular rate, i.e. category three rate for cotton. For example, if the minimum export price is 28 U.S. cents per lb. and the exporter succeeds in obtaining 30 cents per lb., the exporter turns over 28 cents to CACEX and sells the remaining 2 cents to the Banco do Brasil at the regular Category III rate."

The Tosta-Filho scheme is not new to us. Its author, Mr. Ignacio Tosta-Filho, Director of CACEX (Foreign Trade Department) at the Banco do Brasil, presented it to us at the time of our Article XIV Consultations in Rio, a year ago (March 17-April 13, 1955), but we strongly discouraged him from adopting the scheme on the grounds that even though legally Brazil could argue that no rates were involved in the scheme, the Fund would see in it a system of "implicit multiple rates" that Brazil could change freely without consulting the Fund and which would violate the basic principle of having countries consult with the Fund about rate changes. Furthermore, we indicated that technically it would be very difficult to determine the level of remuneration for each export and exporter and the system was based on the wrong idea that commodities are produced at constant costs (Minutes N° 15 of discussions with Brazilian authorities). Octavio Bulhoes, the Head of SUMOC at the time, agreed with us and the scheme was shelved, but apparently Mr. Tosta-Filho--who was confirmed by the new administration in his post of Director of CACEX--has been able recently to put it into operation.

In order to evaluate, in terms of a particular commodity, how the scheme works, we can take the case of cotton.

Cotton is, next to coffee, Brazil's chief export commodity, accounting for about 10 per cent of total export values in recent years. Cotton exports in 1955 were valued at US\$132 million, compared with an annual average of about US\$150 million in the 1950-54 period. Brazilian exports represent about 10 per cent of total cotton trade in world markets. Brazil exports in recent years averaged about 1 million bales of 500 pounds, compared with about 10 million bales of total world exports. Brazil exports cotton chiefly to Japan, Germany, United Kingdom, Spain and other European countries.

The production of cotton in Brazil, amounting to 350,000 to 400,000 tons in recent years, has not shown a rising trend. In the 1954/55 season production amounted to 376,000 tons of ginned cotton, and preliminary forecast for the 1955/56 season indicates somewhat larger production, especially of the variety that is preferably for exports. Domestic consumption of cotton uses between one half to two thirds of the annual production. The trend is toward increasing predominance of the domestic market because of rising domestic consumption.

At the end of February 1956, the Brazilian Government announced a plan which would guarantee cotton farmers in the principal cotton-producing State of Sao Paulo minimum prices ranging from Cr\$135 to Cr\$150 per "arroba" (15 kilograms) of seed cotton, according to the distance from marketing centers. The announcement stated that cotton exporters were to be subsidized by guarantying them the price of Cr\$508 per "arroba" f.o.b. Santos (Type 5). This price is equivalent to 35.7 U.S. cents per pound at the exchange rate of Cr\$43.06 per dollar applied to cotton exports, compared with current international prices of about 25 to 30 U.S. cents per pound. At these foreign prices the "implicit effective rates" that would result from guarantying to exporters the f.o.b.

Cotton seed?

price of Cr\$508 per "arroba" (or Cr\$15.36 per pound) would range from Cr\$51.20 to Cr\$61.44 per dollar. Exporters presumably would pay the growers the minimum price as stated above.

According to the Tosta-Filho Plan, as presented to our Consultations mission in May 1955, "Etudo sobre a Conjuntura Cambial e o Comercio Externo do Brasil", the cotton export scheme would operate as follows: CACEX makes symbolic purchases of cotton from exporters at the guaranteed price of Cr\$508 per "arroba" f.o.b. Santos, after the exporters have already marketed the product abroad at current international prices. The difference between the guaranteed price paid to exporters, which is fixed on the basis of internal costs and price conditions, and the cruzeiro value of the exports at the rate of 43.06 per dollar is covered by drawing on the exchange profit fund (the agios account). In other words, the plan consists basically in guarantying to exporters a minimum price, and the difference between this price and the foreign price equivalent in cruzeiros, at the exchange rate established for the commodity in question, is paid from the exchange profit fund (agios account).

The Foreign Trade Department of the Bank of Brazil (CACEX) made an evaluation of this scheme (Published in Correio Da Manha, Rio de Janeiro, May 4, 1956) based on the first three weeks of its operation and found that the arrangement has proved successful. Cotton exports are moving fast, and prices paid to producers have been above the minimum recommended, while no speculative price increases are being noted in the domestic market which might affect the textile industry. The Bank reports that approximately 70,000 tons of cotton, valued at about \$45 million, have already been marketed under this system.

*Subsidies should be shown and not hidden in the text*



# Office Memorandum

TO : Mr. Jorge Del Canto

DATE: May 7, 1956

FROM : E. Zayas *EZ*

SUBJECT: Mr. Gudin's Suggestions on the Exchange Reform and Anti-Inflationary Measures in Brazil

In a series of articles published in the "Correio da Manhã", a newspaper of Rio de Janeiro, Mr. Gudin deals with the problem of inflation in Brazil and the exchange reform. He suggests measures that he considers adequate for the control of the inflationary forces in Brazil and recommends a new exchange reform that he thinks will be fit under present conditions. The anti-inflationary measures would include:

1. An increase in the reserve requirements for deposits in excess of an indicated limit. These higher reserves would be kept with SUMOC and not with the Bank of Brazil. That is, he recommends the reestablishment of Instrução 108 of October 22, 1954, which was canceled in May 1955 (Instrução 116).

2. A ceiling on credit operations for the various credit departments of the Bank of Brazil.

3. To make the utmost efforts to eliminate deficits in the public sector.

4. To limit the increase in minimum salaries to the increment in the cost of living.

5. To limit the volume of investment expenditures in the public and private sectors, to the availabilities of resources.

On the exchange field, Mr. Gudin makes a series of critical observations on the present multiple-rate system, indicating some of the drawbacks on exports, imports and capital movements. The capital defect of the auction system, he says, is the instability of the "agios"; the multiplicity of the "agios" not only for the different categories of imports, but also for one category, from one auction to another, and from one city to another. The system, he adds, discriminates against small importers.

Mr. Gudin says that experience has shown again and again that under conditions of ample world supply of coffee, as is the case at present, "every time Brazil devalues its currency, the price of coffee remains approximately the same *in Crf.* and the price in dollars falls almost proportionately to the rate of devaluation. In other words, producers gain nothing and Brazil loses a lot."

Mr. Gudin's exchange reform basically would include:

1. The creation of a single exchange market with a fluctuating exchange rate for exports (except coffee), imports, and transactions now carried through the free market. The International Monetary Fund should be notified that Brazil adopts, temporarily, a fluctuating rate until an equilibrium rate is evolved.

2. Exchange proceeds from coffee exports would be surrendered at the rate of Cr\$40 (or Cr\$45) per U.S. dollar.

3. Auctioning of exchange will be terminated but an exchange surcharge on imports will be established, varying according to the group of import classification, similar to that established by Law 2410 of January 29, 1955 (see SM/55/36, Staff Report and Recommendations--1954 Consultations, Part II, pp. 62-65). This Law authorized the establishment of fixed surcharges which were to be in proportion to the average auction bids in the auctions held in the last three months. Mr. Gudín now proposes that the surcharges should be determined on the basis of the rate quotation in the fluctuating exchange market. The surcharges established in that Law are as follows: Category I, 35%; Category II, 50%; Category III, 65%; Category IV, 75%; and Category V, 100%.

EZ/gsm



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**Author of Article:** unknown  
**Number of Pages:** 1  
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**Reviewed:** August 2021



*Braz. file*  
**Office Memorandum**

TO : Mr. Ivar Rooth

DATE: April 2, 1956

FROM : Jorge Del Canto *JDC*

SUBJECT : Brazil

Attached is the Radio Broadcast item on President Kubitschek's statement to the nation of March 27, 1956. We are trying to get a copy of the full text of this speech. From these excerpts it does not appear that the President is taking any drastic steps to deal with Brazil's problems. To meet the Cr\$26.5 billion budgetary deficit (largely arising from expected readjustment of the salaries of civil servants and the Armed Forces), the President expects, among other things, a better collection of taxes (Cr\$5 billion) and a tariff readjustment (Cr\$4 billion). Our analysis of the proposed tariff reform suggests that revenue-wise the proposed tariff changes would not materially alter the present situation (collection of agios through the auction mechanism) except that the Federal Budget will receive this revenue directly through the tariffs, rather than as present the Bank of Brazil, (for the account of the Government) through the auction mechanism.

To be of assistance to the Minister of Finance on such matters as detailed technical advise on fiscal and monetary and credit matters, Mr. Paranagua has asked, and Mr. Cochran has agreed, to provide G. Costanzo for a period of 4 weeks beginning around April 10-15. Costanzo is expected to stop over, in route, for a couple of days in Paraguay. When his assignment is completed in Rio, he will again have a brief stop-over in Asunción, and then proceed for a few days to Chile. He will meet Jones there. Jones is going to open up our follow-up procedures on our stand-by with Chile. Mr. Cochran will, no doubt, discuss these plans further with you tomorrow.

Attachment



# Office Memorandum

TO : Mr. G. A. Costanzo

DATE: February 10, 1956

FROM : A. Foz

SUBJECT: New President of the Banco do Brasil

The Radio Broadcast Bulletin of the Brazilian Embassy, dated February 8, 1956, states that President Kubitschek has invited Mr. Sebastiao Pais de Almeida to become President of the Banco do Brasil. Mr. Pais de Almeida belongs to a traditional Sao Paulo family and is a Director of the Banco Nacional do Comercio de Sao Paulo. He is a prominent member of the PSD of Sao Paulo and was Secretary of Finance of the State of Sao Paulo in the government of Mr. Lucas Garces.

I believe that Mr. Rooth had the opportunity of meeting Mr. Pais de Almeida during his visit to Sao Paulo in 1954, particularly when visiting the Banco do Estado de Sao Paulo.

Mr. Pais de Almeida's name has been mentioned for the Presidency of the Banco do Brasil since last November and he is considered to be the best choice of those names mentioned for the post.

In the same Bulletin, it is confirmed that President Kubitschek has nominated Eng. Lucas Lopes to become President of the Banco Nacional de Desenvolvimento Economico.

INTERNATIONAL MONETARY FUND

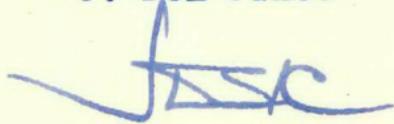
February 8, 1956

Mr. Rooth:

The attached might be of interest to you. There is nothing in the Cabinet discussions that suggests an exchange reform in the near future. I recently received from SUMOC a considerable volume of working material on Brazil that our staff is digesting. Our working contacts with Brazil are now excellent.

J. Del Canto

Attachment

A handwritten signature in blue ink, appearing to read 'J. Del Canto', with a long horizontal flourish extending to the left.

Jorge Del Canto

to file

B R A Z I L

Feb. 6, 1956

CABINET ANALYZES ECONOMIC PROGRAMS

Rio de Janeiro--The office of the secretary of the President has sent the following note to the press regarding the Cabinet meeting:

In the first combined meeting held by the President and his Cabinet and the chiefs of his military and civilian staffs, an extensive analysis of the economic and financial situation in the country was carried out. Stress was placed on the seriousness of the inflationary crisis and the Government's proposed measures to check current imbalances. They also discussed the pros and cons of a long-range economic program.

President Kubitschek reiterated his support of the free press. He added that private capital carried the biggest share of responsibility for the expansion and development of greater production and that it was up to the Government to provide conditions propitious for work and for the conservation of national health. It falls to the Government essentially to be (basic?) investor, a pioneering factor, and to give encouragement.

President Juscelino Kubitschek expressed and stressed the importance of a policy of foreign trade that is both real and active--one that will envisage the opening of new markets, diversification of exportations, and the expansion of its volume. Brazil's trade policy should be based on a policy of investment that will attract foreign capital to aid our development.

The official note continues: The President of the Republic discussed a program of coordinated efforts of all facets of the Government's economic policy, which will in turn promote a volume of (goods?) for the general public. The program calls for stimulating investments in the fields of greater productivity and the toning down of investments in the (non-essentials?), avoiding waste and loss of public funds.

The Chief Executive stressed the need for greater care and economy in budget expenditures. He urged the ~~Ministers~~ to cooperate in the program of austerity which is already in effect.

The President said that austerity in public expenditures reflects a high standard of administrative integrity which he is concerned in maintaining, adding that in this task the greatest vigilance will be exercised. In this regard, Kubitschek said that the Government will be implacable in its fight against every form of misuse of public funds.

The President then referred to the need to eliminate the many deficits, which in 1955 reached the sum of 9 billion cruzeiros. Agencies responsible for these deficits were the railways, shipping companies, and posts and telegraphs. The situation must be corrected by greater efficiency of operation and the adoption of new tariff rates. The President pointed out that it is less damaging for the public to undergo a price readjustment

within the scope of reality, for which they would receive in exchange a fair service, meeting the needs of a modern country, than to have the Government pay indirectly for the services with subsidies that lead fatally to emissions of paper currency and consequent higher prices.

The official note from the Catete adds further that the President expressed his conviction that the fight against inflation does not mean that the country's development must come to a standstill. On the contrary, when we overcome speculation, profiteering, social struggles, waste, and inefficiencies brought about by the inflationary period itself, the groundwork will have been prepared for a new surge of harmonious and balanced development which the new Government hopes to attain.

The President added that he is particularly interested in the living conditions of the workers. He is conscious of the problems pertaining to workers' wages and states that every effort should be put forth by the Government to see that the workers attain a real wage. The President then referred to the problems of the Federal employees. He said that it is essential that the employees receive adequate remuneration but to accomplish this it is going to be necessary that the number of employees not rise without justification or outside of the possibilities of the Treasury. He said that this policy will be strictly observed during his administration.

In the final part of the official note it is stated: The President gave a general outline of the national development plan which he has been advocating ever since his electoral campaign. The plan is based on a given number of goals to be reached within the 5 years of the new administration. The plan calls for the Government to operate along with private enterprise. He explained that the selection of these goals will not mean that other projects are to be abandoned. It means that other more important objectives may be selected.

The President pointed out that there is a need for perfect cooperation among Government agencies which will be charged with accomplishing or sponsoring the projects of the development plan.

After listing the goals already set on a preliminary basis, the President highlighted their importance to the national economy and explained that to coordinate the Government's efforts in behalf of the national development plan, which is composed of the important three-point base, energy, transportation, and food, he had decided to establish an agency at Cabinet level, the Development Council. Under his supervision it will be charged with studying and promoting the economic expansion of the country, draw up plans and programs of action, and draft bills, decrees, and administrative acts. The council will be aided by a technical advisory body of the highest caliber and it will also have the services of committees from specialized agencies of the public administration.

... were \$5.00

white shirts of 'silky'

in conjunction with the National Security Council.

As his governing slogan, like that of his campaign, is "Power, Transport, Food," Dr. Kubitschek's five-year plan concentrates on these items.

Thus, the program calls for a two-thirds increase in Brazil's electrical output, the installation of a 10,000-kilowatt industrial atomic reactor, and encouragement of the production of uranium and thorium, in which Brazil is rich, an increase in the domestic output of oil and coal and the expansion of forestry are also urged.

The food part of the plan provides for the construction of new storage facilities, the expansion of slaughterhouses and packing plants and an increase in the number of tractors for agriculture. It also asks a rise in the production of fertilizers and insecticides and 30 per cent greater agricultural and livestock production.

The plan calls for considerable expansion of steel, aluminum, iron, cement, cellulose and paper production, and the establishment in Brazil of trucks, automobile, locomotive and heavy electrical equipment plants and shipyards.

The President called for a fight against Brazil's runaway inflation and expressed the hope that the estimated budget deficit this year would be reduced.

Later in the day, the Vice President of the United States told Brazilian labor leaders that "a true people's democracy" was the best answer to Communist or any other dictatorships.

Mr. Nixon spent nearly an hour at the headquarters here of the Confederation of Industrial Workers, the top labor organization in Brazil. His presence and the contents his speech were regarded as significant in view of the partly successful Communist efforts to infiltrate Brazilian unions.

One hundred labor leaders crowded into a small fifth-floor auditorium to applaud Mr. Nixon repeatedly as he spoke of the importance of the free trade union movement in the struggle against communism.

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INTERNATIONAL MONETARY FUND  
WASHINGTON 25,D.C.

RESEARCH DEPARTMENT

January 13, 1956

CABLE ADDRESS  
INTERFUND

MEMORANDUM

TO: Mr. Rooth  
FROM: J. J. Polak *JJP*  
SUBJECT: Statistical Data on Inflation in Brazil

I would believe that the following data could well be marshalled to indicate the extent and causes of inflation in Brazil:

(a) The effects:

1. Cost of living index.
2. Index of wholesale prices, excluding coffee.
3. Wages (if reliable data on this are available).

(b) Causes:

1. Credit expansion by the monetary system
  - a. Government.
  - b. Other official entities (describe).
  - c. The private sector.
2. The money supply (indicate definition).

The particular dates and periods should be selected on the basis of the material itself in order to give the best evidence on the actual course of inflation during the last few years.

Facts about the inflation in Brazil for some years, say 1952-55

indicated e.g. by

- a) cost of living index
- b) wage increases
- c) increase of money supply (indicate in footnote how it is computed)
- d) increase of bank credit:
  - i) by Banco do Bresil
  - ii) by other banks
- e) Total amount of credit given by B do B to  
Federal Government and Autarkias (end of year figures for 1955  
or last available figures)  
States and municipalities



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# Office Memorandum

To Brazilian file

R

CONFIDENTIAL

TO : Mr. Ivar Rooth

DATE: January 9, 1956

FROM : Jorge Del Canto

JSC

SUBJECT: Brazil - Price Spread Among Various Types of Coffee

Attached is the memo I offered you last Friday. Even though Foz suspects underinvoicing of coffee exports, I was not able to confirm this with Roberto Campos.

Since we have now finished Uruguay and Ecuador and in view of the impending taking of office by the new administration in Brazil, I plan to intensify our work on Brazil beginning this week. At the reception at the Brazilian Embassy last Saturday I gathered the impression from President Kubitschek that he would be quite interested in having Fund views on Brazil's exchange policy. So far, I understand, the current thinking has centered around the plan that Campos brought up to the Fund last August.

Attachment

~~\_\_\_\_\_~~



# Office Memorandum

TO : Mr. Jorge Del Canto

DATE: January 6, 1956

FROM : A. Foz *A. Foz*

SUBJECT: Brazil--Price Spread among Various Types of Coffee

The New York Coffee Market quotes prices for three types of Brazilian coffee--Santos 2, Santos 4, and Parana 4. Two more types of Brazilian coffee are traded in the New Orleans Coffee Market--Rio 7 and Victoria 7/8.

The bulk of Brazilian coffee exports to the United States is of coffee type 4. The Santos 2, a milder coffee than the 4, is exported in rather small quantities, due to the relatively small production. The Rio 7 and Victoria 7/8 are coffees of a rather unusual flavor (hard drink) and have a much more limited market, almost exclusively in the southern states of the United States. Of the last two, the Rio 7 is exported in larger quantities than the Victoria 7/8, because of larger production and more uniform quality.

The spread in price among these various types of coffee is normally rather small, particularly between the Santos 4 and the Parana 4, since both are coffees of the same type and with practically no difference in flavor.

The Santos 4 coffee has always been sold at a slightly higher price than the Parana 4 (during 1954 it averaged about 1 per cent higher), the reason for this premium not being too clear.

During September 1955 the price spread between the Santos 4 and Parana 4 coffees started widening, and reached 5.13 U.S. cents or about 10 per cent during the first week of October. This has been the highest spread registered so far, the difference in price having been reduced somewhat in later months. During the last week of December, the average price quoted in the New York market for the Santos 4 coffee was 52.75 U.S. cents per pound, while the price of the Parana 4 coffee was 48.75 U.S. cents per pound, resulting in a spread of 4.00 U.S. cents or about 8 per cent.

The actual explanation for such a widening in the spread between the prices of these two types of coffee is not known and only a very tentative reasoning may be attempted.

(1) The widening of the spread coincides with the very sharp increase in the volume of coffee exports to the United States, which was almost doubled in September 1955 when over 1.2 million coffee bags were exported. (During August coffee exports to the United States amounted to a little less than 0.7 million bags.) Furthermore, the widening of the spread in September was primarily due to an increase in the average price of the Santos 4 coffee (from 56.55 U.S. cents per pound in August to 58.73 U.S. cents per pound in September), while the average price for the Parana 4 remained at practically the same level (55.10 U.S. cents per pound in August and 55.93 U.S. cents per pound in September). In the subsequent period, the spread was further widened by the fact that the Parana 4 price suffered a greater drop than the Santos 4 price.

At first hand, one would expect to find the explanation in a change in the relative demand and supply of Santos 4 versus Parana 4. However, on the demand side there is no evidence of any change in the demand pattern since, as has been pointed out previously, there is no substantial difference between these two coffees.

On the supply side, there is also no evidence of any change in the relation between the supply of Santos 4 and the supply of Parana 4. The July 1955 frost that hit Brazil's coffee crop was more severe in the State of Parana than in the State of Sao Paulo and thus could have forced the Parana growers to dispose of their stocks. On the other hand, the Sao Paulo growers have also suffered from the frost, and credit and other governmental assistance is granted without discrimination. Furthermore, the production of the State of Sao Paulo is about double that of the State of Parana (470 thousand metric tons compared with about 202 thousand metric tons in 1953)<sup>1/</sup> and the Coffee Institute liberalizes coffee for export in accordance with a rather rigid plan, in an attempt to avoid fluctuations in foreign prices resulting from disorganized supply. Thus, it is rather difficult to conceive that the widening of the spread between the two prices for coffee type 4 could be accounted for by a change in the pattern of supply.

---

<sup>1/</sup> Government-held stocks of coffee could not have any influence, since they have been maintained at the same level of 3.2 million bags throughout the whole period June-December 1955.

(2) The rate of exchange for the dollar in the free market since the end of the first quarter of 1955 has shown a continuous tendency to appreciate. In September the rate of appreciation of the cruzeiro was the highest for the whole period—about 5 per cent.

*Rates?*

In an attempt to explain this appreciation of the cruzeiro rate in the free market, it has been reported that it is primarily due to a net inflow of foreign capital. As a result of the very tight credit situation prevailing, foreign companies have been forced to bring into the country some additional capital and have not been able to remit any profits. Another explanation that has been suggested is that the demand for dollars has been reduced on account of more strict restrictions that have been imposed on imports by travelers (primarily automobiles) and also that credit restrictions have discouraged capital flight.

*Selling of coffee proceeds in the market*

In spite of the fact that the free exchange market in Brazil is rather thin and thus very sensitive to any changes in supply and demand however minor, it is a well-known fact that perhaps the most important forces playing in the market are those resulting from the under-invoicing of both exports and imports.

Taking into consideration the continuous depreciation of the effective rates for imports from the dollar area, parallel with the appreciation of the cruzeiro in the free market, it is to be expected that the incentive for the under-invoicing of imports has increased, thus offsetting any possible decrease in the demand for dollars resulting from the above-mentioned reasons. In spite of the attempts of the Brazilian authorities, the Bank of Brazil has not as yet been able to effectively control the prices of imported goods in such a way that the under-invoicing of imports could be avoided.

*Are these not two sides of the same thing?*

*why?*

The under-invoicing of exports has also been a well-known problem facing the Brazilian authorities. The surrender of 100 per cent of exchange proceeds is a rule that is usually strictly enforced. On the other hand, the rather large spread between the free market rate and the effective export rate is a powerful stimulus for the continuous practice of under-invoicing.

The under-invoicing of some commodities of not too well defined quality, type and price is very difficult to detect. On the other hand, it appears that in the case of a commodity such as coffee, the very close attention and controls that are imposed by both the Coffee Institute and the FIBAM would make under-invoicing impossible. As a matter of fact it appears that the under-invoicing of coffee could only be made if the type of the coffee that is actually exported is better than the one mentioned in the invoice, since the market price for any specific type is well-known. This modality of under-invoicing has been detected rather recently in shipments of carnauba wax, another commodity that has well-known prices but more than one type of quality.

Taking into consideration the enormous pressure that coffee interests have been putting on the Brazilian Government in an attempt to obtain a better exchange rate for coffee exports and the reluctance of the Brazilian authorities to yield to such pressures in the fear that devaluation of the coffee export rate could lead to a sharp drop in the international price of coffee, and also that the authorities have not been able to satisfy fully

the requests of that politically strong group, it is conceivable that some kind of "understanding" has been reached according to which the control of invoicing of coffee shipments has been somewhat relaxed to permit coffee exporters to retain a certain portion of their dollar proceeds, that would then be freely disposed of in the free market. This could perhaps be the real explanation for the appreciation of the cruzeiro in the free market, on account of a substantial increase in the supply of dollars and could also very well explain the widening of the spread between the price for the Santos 4 and Parana 4 coffees. The assumption is that Santos 4 coffee is being shipped and invoiced as Parana 4. If this is the case, it would be to the interests of the Brazilian exporters to increase the spread between the spot prices for these two types of coffee to the maximum permissible.<sup>1/</sup>

It is not possible to have the exact figure for the amounts of dollars that have gone to the free market through such under-invoicing. If it is assumed that no Parana 4 coffee has been exported during October for instance, and that the total volume of Brazil's exports of coffee to the United States in that month have been of Santos 4 and furthermore that the total volume of 1.1 million bags have been under-invoiced, then it appears that about \$7 million could have been thrown into the free market. [Even taking into consideration the demand for dollars in the free market resulting from the under-invoicing of imports, the \$7 million inflow into this market would have appreciated the cruzeiro rate much more than the appreciation that has occurred.]

*How can you know it?*

As has been pointed out before, all the above reasoning is very tentative. The staff has no official information to confirm the above. Nevertheless, it is convinced that the under-invoicing of coffee must be the real cause of both the unusual spread between the coffees Santos 4 and Parana 4 and also for the somewhat disturbing appreciation of the cruzeiro in the free market.

*Much less coffee would have been sold if this underinvoicing had not taken place.*

---

<sup>1/</sup> The limit of the spread would be the difference between the two minimum prices as set by the Brazilian Coffee Institute. These two prices are different in order to take into consideration transportation costs, storage and other costs.

Spot Brazilian Coffee Prices for the New York and New Orleans Markets<sup>1/</sup>

Monthly Average

In U.S. cents per pound

	Santos <sup>2/</sup> "2"	Santos <sup>2/</sup> "4"	Parana <sup>2/</sup> "4"	Rio <sup>3/</sup> "7"	<i>victoria 7/8</i>
1954					
January	70.40	69.75	68.30	57.30	
February	76.55	76.00	75.00	60.60	
March	89.10	87.80	86.80	66.35	
April	90.95	89.75	88.80	72.80	
May	87.15	85.95	85.20	71.50	
June	89.10	88.15	87.20	70.30	
July	88.60	87.64	86.65	67.38	
August	82.33	81.58	80.42	62.54	
September	71.55	70.65	69.65	54.20	
October	69.15	68.25	67.25	53.05	
November	71.70	70.75	69.85	53.05	
December	69.30	68.25	67.30	51.55	
Average	79.65	78.71	77.70	61.72	
High	94.75	93.50	92.50	75.00	
Low	66.00	65.50	64.00	51.00	
1955					
January	67.90	66.85	65.95	51.50	
February	59.02	58.23	57.55	47.50	
March	58.75	57.95	56.78	44.90	
April	58.90	57.82	56.65	44.55	
May	55.47	54.20	53.11	41.95	
June	58.03	57.05	55.95	41.90	
July	55.48	54.33	53.00	41.90	
August	57.75	56.55	55.10	41.03	
September	59.65	58.73	55.93	40.50	
October	57.52	56.33	51.48	38.90	
November	55.15	54.17	49.78	36.30	
December <sup>4/</sup>	53.95	52.92	48.56	34.95	
Average <sup>5/</sup>	58.13	57.09	54.99	42.16	
High	67.90	66.85	65.95	51.50	
Low <sup>5/</sup>	53.95	52.92	48.56	34.95	

<sup>1/</sup> Prices quoted include all marketing charges such as: freight, insurance, transshipment, weighting, local warehousing, financing, etc.

<sup>2/</sup> New York market.

<sup>3/</sup> New Orleans market.

<sup>4/</sup> Estimates. Unweighted average of weekly average prices.

<sup>5/</sup> Preliminary.

Source: Mercado de Cafe, Pan American Coffee Bureau.

# BULLETIN

PRESIDENT SAMUEL C. WAUGH OF THE EXPORT IMPORT BANK SAID THAT IN TIME THE QUESTION MAY COME BEFORE THE BANK OF CONSIDERING THE POSSIBILITY OF CHANGING THE MATURITIES OF ITS LOANS IN BRAZIL.

THE LATEST MONTHLY STATEMENT OF THE BANK, FOR DECEMBER 31, 1955,

SHOWS THAT AS OF THAT DATE THE BANK HAD AUTHORIZED LOANS IN BRAZIL TO A TOTAL OF MORE THAN \$69,000,000. OF THAT TOTAL, THE BANK HAD DISBURSED MORE THAN \$39,000,000. AT THE RISK OF THE EXPORT IMPORT BANK.

PRINCIPAL OUTSTANDING ON THOSE LOANS AMOUNTED TO MORE THAN \$460,000,000.

Table 1. Brazil: Money Supply 1948/1955

(In millions of cruzeiros)

	Currency		Demand Deposits		Money Supply	
	Amount	% Change	Amount	% Change	Amount	% Change
1948	17,734	5.04	32,505	7.68	50,239	6.73
1949	19,361	9.17	39,015	20.02	58,376	16.19
1950	25,141	29.85	53,119	36.15	78,260	34.32
1951	28,461	13.20	62,232	17.15	90,693	15.88
1952	31,535	10.80	72,622	16.69	104,157	14.84
1953	37,870	20.08	86,202	18.69	124,072	19.12
1954	48,967	29.30	102,517	18.49	151,484	22.09
1954						
March	39,076	3.18	89,356	3.66	128,432	3.51
June	40,593	3.88	92,600	3.63	133,193	3.71
September	45,410	11.87	97,697	5.50	143,107	7.44
December	48,967	7.83	102,517	4.93	151,484	5.85
1955						
March	48,658	- 0.63	104,552	1.99	153,208	1.14
June	51,461	5.76	109,667	4.89	161,128	5.86
September	54,353	5.62	115,386	5.21	169,739	5.34

Source: Mensario Estatístico.

Table 2. Brazil: Credit Expansion by the Monetary Authorities and the Commercial Banks  
(Billions of Cruzeiros: End of Period)

	Monetary Authorities			Commercial Banks			Total		
	Government <sup>1/</sup> Entities <sup>2/</sup>	Private Sector <sup>3/</sup>	Total	Government	Private Sector	Total	Government <sup>1/</sup> Entities	Private Sector	Total
1948	15.1	11.9	28.7	1.7	37.4	39.1	18.5	49.3	67.8
1949	15.4	14.1	31.5	1.9	44.0	45.9	19.3	58.1	77.4
1950	22.4	16.3	41.8	2.3	63.2	65.5	27.8	79.5	107.3
1951	22.1	26.1	53.2	3.1	68.3	71.4	30.2	94.4	124.6
1952	27.6	36.4	70.9	1.4	73.6	79.0	29.0	110.0	149.9
1953 (41)	31.2	42.4	82.2	1.4	87.4	93.8	32.6	129.8	176.0
1954:									
1st quarter	33.0	43.6	85.8	1.3	92.1	98.6	34.3	135.7	184.4
2nd quarter	32.7	48.7	93.2	1.5	97.2	103.6	34.2	145.9	196.8
3rd quarter	31.3	57.7	102.4	1.5	103.2	109.9	32.8	160.9	212.3
4th quarter	36.2	50.5	111.6	1.3	103.4	110.0	37.5	162.9	221.6
1955:									
1st quarter	37.6	58.0	111.8	1.7	104.6	111.6	39.3	162.6	223.4
2nd quarter	39.0	59.7	115.2	1.7	106.2	113.3	40.7	165.9	228.5
3rd quarter	36.9	64.4	118.0	1.6	113.8	120.7	38.5	178.2	238.7

<sup>1/</sup> It includes Bank of Brazil loans plus outstanding currency issues under the responsibility of the Treasury.

<sup>2/</sup> Bank of Brazil claims on State and Municipal Governments as well as suburbs.

<sup>3/</sup> Bank of Brazil claims on the private sector.

Source: International Financial Statistics.

Table 3. Brazil: Rediscount Department  
Outstanding Balances

(In millions of cruzeiros)

	Bank of Brazil	% Change	Commercial Banks <sup>1/</sup>	% Change	Total	% Change
1948	1,307	85.65	1,170	52.14	2,477	68.16
1949	3,280	150.95	1,528	30.59	4,808	94.10
1950	9,763	197.65	2,072	35.60	11,835	146.15
1951	3,297 <sup>2/</sup>	- 66.23	3,684	77.79	6,981	- 41.02
1952	7,143	116.65	4,050	9.93	11,193	60.33
1953	10,169	42.36	4,215	4.07	14,384	28.50
1954	21,885	115.21	4,658	10.51	26,543	84.53
1954						
March	10,408	2.35	4,004	- 5.01	14,412	0.19
June	10,979	5.49	5,132	3.20	16,111	11.79
September	15,493	41.11	6,245	21.69	21,738	34.93
December	21,885	41.26	4,658	-25.41	26,543	22.10
1955						
March	9,002 <sup>2/</sup>	- 58.87	4,285	- 8.01	13,287	-49.94
June	11,644	29.34	4,692	9.50	16,336	22.95
September	13,467	15.66	6,217	32.50	19,684	20.49

<sup>1/</sup> It includes Banking Houses as well as Credit Cooperatives.

<sup>2/</sup> These declines are due mainly to a bookkeeping transaction in August 1950 and February 1954 whereby the Treasury offset part of its debt to the Bank of Brazil by assuming responsibility for a corresponding amount of currency issued, thus reducing the indebtedness of the Bank of Brazil to the Rediscount Department.

Source: Table on "Carteira de Redescontos" as shown in SUMOC's monthly studies on Credit Situation.

Table 4 Brazil: Deficit or Surplus in Government Finances

(Million cruzeiros)

	Federal Govt.	State Govts. <sup>1/</sup>	Municipal Govts.	Total
1940	- 544	- 325	/ 15	- 854
1	- 673	- 103	/ 20	- 756
2	- 1,355 <sup>2/</sup>	- 120	- 40	- 1,515
3	- 2,351 <sup>2/</sup>	/ 296	/ 40	- 2,015
4	- 2,087 <sup>2/</sup>	/ 275	- 38	- 1,850
1945	- 3,019 <sup>2/</sup>	- 662	- 155	- 3,836
6	- 2,633	- 320	- 84	- 3,037
7	/ 460	- 1,448	- 111	- 1,099
8	/ 3	- 1,182	- 78	- 1,257
9	- 2,810	- 928	- 300	- 4,038
1950	- 4,297	- 2,165	- 402	- 6,864
1	/ 2,819	- 1,468	- 269	- 1,082
2	/ 2,279	- 5,676	- 597	- 3,994
3	- 2,868	- 5,417	- 46	- 8,331
4	- 2,884	- 5,776	- 79 <sup>3/</sup>	- 8,739
1955	- 3,213 <sup>3/</sup>	- 2,744 <sup>3/</sup>	n.a.	n.a.
6	- 545 <sup>3/</sup>	n.a.	n.a.	n.a.

<sup>1/</sup> Includes the Federal District.

<sup>2/</sup> Including war expenditures of Cr\$517 m. in 1942; Cr\$1,850 m. in 1943; Cr\$1,999 m. in 1944; and Cr\$2,025 m. in 1945.

<sup>3/</sup> Budget estimates.

Source: Anuario Estatístico do Brasil.

Table 5. Brazil: Economic Indexes  
(Monthly Averages)

Base: Monthly Average of 1948 = 100

	Physical Volume of Production				Terms of Trade	Wholesale Prices Excluding Coffee	Sao Paulo Cost of Living	Industrial Wages
	Indus- trial	Bldg. & Constr.	Agric.	Coffee				
1948	100	100	100	100	100	100	100	100
1949	106	87	106	103	119	105	98	115
1950	118	92	110	103	195	108	104	123
1951	129	113	108	104	194	130	113	134
1952	137	149	116	108	172	147	133	153
1953	146	151	115	107	189	169	162	157 *
1954	156	144	120	100	247	213	190	230
1954								
1st Qtr.	151	148	n.a.	n.a.	242	192	173	157
2nd Qtr.	157	147	n.a.	n.a.	279	204	188	179 *
3rd Qtr.	151	142	n.a.	n.a.	273	217	196	291 *
4th Qtr.	165	138	n.a.	n.a.	241	229	203	293 *
1955								
1st Qtr.	157 *	135	n.a.	n.a.	212	238	213	296 *
2nd Qtr.	165 *	133 *	n.a.	n.a.	199	244	223	301 *
3rd Qtr.	160 *	131	n.a.	n.a.	175	255	230	n.a.

\* Provisional data.

Source: Conjuntura Economica, November 1955.  
Anuario Estatístico do Brasil, 1955.

Table 6. Brazil: Foreign Trade 1948/1955

(In millions of dollars)

	Exports	Imports	Balance
1948	1,180.5	1,121.0	59.5
1949	1,096.5	1,103.0	- 6.5
1950	1,355.5	1,085.1	270.4
1951	1,770.9	1,987.1	-216.2
1952	1,418.1	1,981.9	-563.8
1953	1,539.3	1,318.7	220.6
1954	1,561.8	1,633.7	- 71.9
1954			
1st Quarter	410.5	365.2	+ 45.3
2nd Quarter	319.8	383.7	- 63.9
3rd Quarter	383.8	454.2	- 70.4
4th Quarter	447.7	430.6	+ 17.1
1955			
1st Quarter	297.7	351.1	- 53.4
2nd Quarter	314.7	310.2	+ 4.5
3rd Quarter	392.0	325.0	+ 67.0

Sources:

1. From 1948 to 1952 based on the monthly average data in dollars as reported in the Mensario Estatístico No. 47 of May 1955.
2. From 1953 on from the Mensario Estatístico and SUMOC's Bulletin.



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RESEARCH DEPARTMENT

To Brazil file

INTERNATIONAL MONETARY FUND  
WASHINGTON 25, D.C.  
November 22, 1955

CABLE ADDRESS  
INTERFUND

MEMORANDUM

TO: Mr. Rooth

FROM: J. Marcus Fleming *JMF*

SUBJECT: Brazil's Coffee Exchange Rate, the Price of Coffee and the Balance of Payments of Coffee Exporters

Arising from your reading of Miss Lovasy's coffee paper you asked what would be the effect of a devaluation of the Brazilian exchange rate for coffee exports on the balance of payments situations and exchange rate policies of other coffee exporting countries.

This question may be taken in two stages:

- I. the effect of Brazil's action on the dollar price of coffee, and
- II. the effect on the position of other countries.

The effect of Brazil's action on the dollar price of coffee depends on (a) the mode and magnitude of the assumed depreciation of the Brazilian coffee rate, (b) what is assumed to be the alternative Brazilian policy if the rate is not depreciated.

Suppose that the alternative policy to the depreciation of the coffee rate is one of laissez faire i.e. that if the coffee rate were not depreciated the Brazilian authorities would not take action, through stockpiling, to support the cruzeiro price of coffee. In this case, given the fairly competitive character of the domestic Brazilian coffee market, and the rather low elasticity of the supply from current production the principal medium run effect of depreciating the coffee rate over the next few years would probably be on the cruzeiro price rather than on the dollar price of coffee. The latter is determined by the demand conditions abroad in conjunction with the quantities of coffee supplied by Brazil, which would be likely to be but little effected. Even in this assumption however, there

increased  
selling of  
no stockpiling

might be important short run speculative effects on the dollar price of coffee. To the extent that the decline in the coffee rate, and the rise in the cruzeiro price had been anticipated, and had led to previous private stockpiling in Brazil the release of these stocks would lead to a temporary increase in coffee supplies and a temporary drop in the dollar price of coffee, save in so far as these stock movements in Brazil had led to opposite stock movements on the part of roasters etc. in the importing countries. It seems possible that a substantial amount of coffee is being held privately in Brazil in anticipation of an exchange depreciation and rise in cruzeiro prices so that the initial reaction to dollar prices of a change in the coffee exchange rate might be quite marked.

Moreover it is probably unrealistic to assume that in the absence of exchange depreciation the authorities could leave the cruzeiro price of coffee free to follow the fluctuations of the market. At the present time, it is true, Brazil has no firm system for the domestic price support of coffee. Legislative authority for stockpiling operations by the parastatal Brazilian Coffee Institute has lapsed. But official finance is available for private stockpiling of coffee at a cruzeiro price some 25 per cent below the present level. And a floor is -- theoretically at least -- set to the cruzeiro export price of coffee, (though not to the price recorded by the grocers) at a price 10 per cent below the present level, through the control of shipping permits. More generally, it seems improbable that the Brazilian authorities could pursue a 'hands off' policy towards a decline in cruzeiro prices of coffee of the magnitude of the decline in dollar prices contemplated in Miss Lovasy's paper.

Having in mind the prospect of a steep decline in the equilibrium price for coffee the main significance of the Brazilian plan for adjusting the coffee rate, as presented to the Board towards the end of September, would seem to be in the intention of the Brazilians to allow the dollar price of coffee to find its level -- subject to the possibility of supporting that price by international agreement -- while supporting the cruzeiro price at or above its present level by adjusting the coffee rate. This precise scheme has many legislative hurdles to surmount in Brazil but in the meantime it is possible for the Brazilians by administrative action to achieve devaluations of the coffee rate by 13 or even by 20%. It would probably be fair to assume that in the absence of exchange depreciation the cruzeiro price of coffee would be supported by official or officially encouraged purchases for stockpile though possibly at somewhat lower levels than would be made possible by depreciation. In this event while part of the significance of any depreciation of the coffee rate should be sought in its effort in sustaining the cruzeiro price, a significant part, even in the medium term must be sought in its effect in the dollar price. Without the possibility of depreciating the coffee rate the Brazilians would have had a motivation on grounds of domestic policy, for putting a brake on the decline of dollar coffee prices by stockpiling

and withholding supplies. Given the possibility of such depreciation, the only motive which Brazil would have to exercise such a braking action would be in order to increase its foreign exchange receipts. While Brazil probably could increase its foreign exchange earnings on balance, at least for a few years, by withholding supplies from the market such a stockpiling policy involves internal financial difficulties and the foreign exchange motive alone might be insufficient to persuade governments to have recourse to it for long.

It is arguable that a stockpiling policy would be bound to collapse in the end whether the exchange rate is depreciated or not so that ultimately adjustment of the exchange rate is the only method of maintaining cruzeiro price of coffee, and that is its principal long-run result. In the long run, however, the higher cruzeiro price of coffee will exercise an effect in promoting the expansion, or avoiding the contraction of the Brazilian supply, and this will depress the long run dollar price of coffee. *Brazil may speculate in a way to solve the problem of stock-piled coffee*

So that, whether one looks to the short-run, the medium term, or the long-run a devaluation of the coffee rate would be likely to have a considerable effect, though it is difficult to say how much, on the dollar price of coffee.

In so far as a reduction in Brazil's coffee exchange rate reduces the dollar price of coffee it will have repercussions on the balance of payments of other coffee exporters. The effects of price falls of the order discussed in Miss Lovasy's paper -- some of which would take place whether or not Brazil's coffee rate is reduced -- on these countries' balance of payments have been roughly indicated in Miss Lovasy's paper and in my Memorandum to you of November 14th. An adequate analysis of the payments effects of such declines in coffee prices would require a careful examination of the position of individual countries which could best be done by, or in conjunction with, the Western Hemisphere Department. The attached table repeats the figures given in my previous Memorandum regarding the assumed decline in coffee income of various countries and expresses them as percentages of 1954 exports (of all commodities) and of present reserves.

The calculations in this table are based on the more pessimistic of Miss Lovasy's two assumptions about coffee prices, but the general implications would not be greatly altered if the less pessimistic one had been taken.

In interpreting these figures the following points have to be borne in mind:

(a) A decline in coffee incomes would bring with it automatically, though only after a time lag, some decline in the propensity to import.

(b) Brazil in 1954 was already running a serious payments deficit -- of some \$120 million -- and had seriously restricted imports.

(c) Colombia would not suffer quite such a serious decline in coffee export receipts if she is able to maintain part of the present high premium for her coffee over Brazilian coffee. On the other hand, she has large arrears of payments on imports.

*Yes but no reduction of income from coffee in the year as a whole*

The assumptions are too pessimistic

- 4 -

Montezuma?

	(1) Estimated Decline in Coffee Exports from 1954 to 1955/56	(2) Total Exports 1954	(3) (1) as a ratio of (2) (%)	(4) Total Reserves June 1955	(5) (1) as a ratio of (4) (%)
Brazil	-226	1562	-14.5	471	-48.0
Colombia	-264	657	-40.2	141	-187
El Salvador	-46	105	-44	58.3	-79
Guatemala	-32	101.4	-32	56.5	-57
Haiti	-24	57*	-42	13.4	-180
Nicaragua	-12	54	-22	23.3	-52
Costa Rica	-18	81	-22	27.5	-65
Dominican Rep.	-11	121	-9.1	32.4	-34
Ecuador	-15	116	-13	32.5	-46
Mexico	-62	656	-9.5	291	-21

\* Fiscal year ended September 30, 1954.

(d) Haiti is being kept afloat by large U.S. gifts and loans. Her official reserves are also supplemented by the dollar holdings in commercial banks.

How much

(e) In various of the countries concerned, notably Guatemala and Mexico the payments situation is currently in a favorable position with rising export incomes on commodities other than coffee. On the other hand, the Dominican Republic is adversely affected by a poor sugar as well as a poor coffee outlook.

On the whole a fall in price of the order envisaged would appear likely to have the most serious balance of payments effects in Colombia and Haiti (as well as in Brazil itself). Nicaragua, El Salvador and Guatemala would be somewhat less severely affected, while Mexico, the Dominican Republic and, to some extent, Ecuador would probably be in the best position to weather the storm.

seriously but

Mr. Eugene R. Black

October 25, 1955

J. Burke Knapp

BRAZIL

I am giving below some excerpts from a report which Bruno Luzzatto has sent in describing a document which Kubitschek has adopted, for purposes of his campaign and subsequently, as a statement of his economic philosophy. On the whole this statement is quite encouraging. It was prepared by our old friend Lucas Lopez, Head of the Electricity Authority in the State of Minas Gerais, who was for a time Minister of Public Works in the present "care-taker" regime. Lucas Lopez will almost certainly have a prominent role under Kubitschek's administration.

*Confidential*

May I add that I hear through the State Department that Kubitschek may pay a visit to the United States before the end of the year with the specific purpose of explaining to "Washington," including this Bank, his economic program. I plan to instruct Luzzatto that, while he should not take any initiative and should not reveal that he has any instructions, he should be warmly receptive to any suggestions from Kubitschek regarding a visit to the Bank. Do you agree?

\*\*\*\*\*

Excerpts from Luzzatto Report:

The document indicates that Kubitschek intends to follow a middle-of-the road program, leaving private enterprises as free as possible from government interference. He says that: "the presence of the state in the battle of economic development in under-developed countries is, in the world of today, a condition for victory." However, "the oriented development of our economy should not have, as a consequence, an increase in the degree of interference of the state, but must, before anything else, substitute for sporadic and disorganized interference the formulation of an organic program in which private initiative will be aware of targets of development and of the incentives which the state is willing to give."

In brief, the document advocates the adoption of a National Development Program in which the national private initiative -- "with the assistance of foreign capital and efficient assistance from the state -- will be in a position to realize the great task of our development and emancipation." Within the Plan, "the state will be predominantly a dispenser of incentives and not a controller of decisions."

Concerning the role of the foreign contribution to development, the document says: "On the other hand, in a country like Brazil, the

October 25, 1955

state must accept the task and the responsibility for creating conditions which will make possible the influx of private foreign capital to be applied in productive investments, side by side with national capital." Another function of the state is "to attract public foreign capital for investment in infra-structures and in the fundamental sectors of power, transportation and the basic industries. The conditions which will enable Brazil to attract non-speculative foreign capital are not different from what is an essential pre-requisite for a sound climate of economic development, namely, political and social stability, stability of the economic institutions, monetary stability, confidence in the future and elimination of "complexos jacobinos." (My underlining.)

The necessity for an overall Plan is mentioned again and again in the document, always with the qualification that this plan should not interfere with private initiative, but actually should be a stimulant through which the state should increase the effectiveness of the private sector.

Dealing with the specific sectors, the document refers to the experience which was gained in Minas by the establishment of the Centrais Elétricas de Minas Gerais, S.A., where a large part of the power installation had to be financed by the government. However, "we must try to strengthen private initiative in the field of electricity, although we are obliged to undertake large, public investments in regions in which private capital is reluctant to take roots." Furthermore, "the legislation on concessions has acted as a disincentive for private initiative, since, -- although it also granted, nominally, a margin for reasonable profits -- it did not provide a mechanism able to correct the effects of the progressive devaluation of currency."

Dealing with transportation, the document introduces, in a very clear and convincing manner, a very important concept referring to activities operated by the government. It says: "The fact that they are operated by the government does not justify a disregard of the basic principle that services must be paid at actual cost. Government-operated services are not under the obligation of obtaining maximum profit, but it is essential that they be compelled to find means for the elimination of their deficits, or, at least, for decreasing them. In very few cases can we accept the reasoning of those who tolerate deficits in the operation of public-owned industries, justifying them on the basis of indirect profits and of the stimulus they provide to economic development. What happens, generally, is that under the cloak of indirect profits, the attempt is made to cover up serious structural deficiencies, faults in administration, and distortion of the spirit of the enterprise. . . ."

To: Mr. Black

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October 25, 1955

The proposal to establish the Rede Ferroviária Nacional (National Railway Company) is supported and, here again, the basic concept is repeated: "It is imperative that we create a new spirit of enterprise in the railroads. We must organize them as an industry, making available the resources for rehabilitating their equipment and the means for balanced operations. If we do not allow political favoritism to interfere with their administration, we will be able to find men capable of forming a team which will rebuild the Brazilian railroads."

cc — Mr. Garner  
Mr. Iliff  
Mr. Rist  
Mr. Demuth  
Mr. Schmidt ✓  
Dr. Larsen  
Mr. Quandt  
Mr. Carlson

GENERAL (contd)

3.36 million tons for the same period of last year, which indicates that the International Wheat Agreement is at present unable to fulfil its function of exercising a stabilising influence on the world market.

*Brazil*  
International Commodity Markets AG.EC.& FIN., 25/10, Washington, understands that the National Advisory Council has expressed itself in favour of the sale to Brazil of a large amount of U.S. surplus wheat against payment in Brazilian currency. For the first time, the U.S. will not demand that the value of the cruzeiro be maintained until the U.S. has had an opportunity of disposing of the funds it receives within the framework of such an agreement. This decision on the part of the U.S. is interpreted in certain quarters as a move taken with a view to facilitating exports of U.S. agricultural surpluses.

THE TIMES, 24/10, Washington. With reference to reports that the U.S. is considering the release of some of its stockpile rubber, a U.S. official spokesman has stated that his Govt plans to hold on to its vast strategic stockpile of natural rubber and does not intend to make more than normal releases for rotation purposes. FIN.TIMES, 24-25/10. According to the International Rubber Study Group, world production of natural rubber in 1955, estimated at 1,850,000 long tons, will be 10,000 long tons short of the estimated consumption. Synthetic-rubber production, at 1,065,000 long tons, will be sufficient to allow 35,000 long tons to be stocked. The Japanese rubber industry plans to start production of synthetic rubber because of uncertainty due to the fluctuating price of the natural product.

The International Cotton Advisory Committee has forecast the possibility that in another two or three years the free world's need of cotton might be met without U.S.-grown cotton, output in the free world outside the U.S. having increased every year since 1947-48 and having almost doubled over this period. The committee says that the total supply of cotton this season should exceed 50 million bales and that the cotton surplus has developed despite a significant gain in consumption in the last three seasons of about 10%. While warning that the picture can change radically before the end of the season (July 1956), the committee adds that prospects are that free-world consumption will continue at last season's level. Statistically, all-time records will be set in 1955-56 for production and supply.

Commodity Prices WORLD COMMODITY SURVEY (Frankfurt), 18/10, gives the latest index figures, as follows:

Index of world-market commodity prices

(1936 = 100)	2nd half of Aug.	1st half of Sept.	2nd half of Sept.	1st half of Oct.
Cereals	209.4	209.1	210.8	210.4
Beverages	387.2	397.2	398.9	399.9
Meat	219.0	221.1	221.3	221.5
Fats	205.6	209.8	213.8	220.9
Vegetable oils and fats	197.0	195.1	199.1	201.3
Hides and skins	212.5	213.6	217.4	218.6
Textile raw materials	233.9	229.2	227.6	225.7
Rubber	367.3	386.7	378.4	333.3
Iron and steel	283.6	283.6	284.1	284.6
Non-ferrous metals	279.3	289.3	288.0	283.3
General index	260.2	261.4	261.9	260.4

U. S. A.

A Domestic "Point Four Programme" L'INFORMATION, 26/10, Washington. President Eisenhower has approved a programme submitted to him by his economic advisers, designed to give assistance to those regions in the U.S. which have lagged behind the general economic development. The programme provides for: 1) the establishment of a new Govt body charged with the task of coordinating Federal activities undertaken to provide aid for communities suffering from unemployment; 2) the granting of technical assistance to the communities in question; and 3) the extension of loans for the financing of industrial projects.

Economic Prospects N.Y. TIMES, 23/10, THE TIMES, 25/10. The Secretary of Commerce has received from his Department's Business Advisory Council a report expressing its considered opinion that the current boom will continue during the first half of 1956 and probably until the end of that year. According to a statement by the chairman of the Council's economic policy committee, the sharp breaks in the stock market which followed the news of President Eisenhower's illness have caused no concern among members of the Council, as "dips were to be expected". As for the slump in agricultural prices, the Council unanimously believed that it had run its course.

Consumer-Credit Expansion In their SUMMARY of 19/10, Brown Brothers Harriman & Co. devote a study to the expansion in consumer credits. It is pointed out that the resumption of growth in consumer indebtedness in mid-1954 roughly coincided with the beginning of recovery in general business activity. The growth rate accelerated during 1955. The total growth in outstanding consumer debts (in millions of dollars) for the 12-month period ended in August this year is shown by the following table:

<u>Type of goods</u>	31st	31st	<u>Increases</u>	
	August 1954	August 1955	Dollar	Per cent
Automotive	10,349	13,547	3,198	30.9%
Other durables	5,294	5,762	468	8.9%
Personal Instalment	4,616	5,257	641	13.9%
Repair and modernisation	1,642	1,589	- 53	- 3.2%
Total	21,901	26,155	4,254	19.4%
Non-instalment*	6,835	7,481	646	9.5%
Grand Total	28,736	33,636	4,900	17.1%

\* Charge accounts, single-payment loans and service credit.

The growth of instalment debt during the twelve months covered by the table has resulted from an expansion of disposable income, a rise in the proportion of disposable income spent on durable goods, and an increase in the percentage of expenditure on durable goods financed by instalment credit. The increasing volume of automotive sales and the growing importance of credit in financing them are among the most important causes of the recent expansion in instalment debt. During the first half of 1955, for example, retail sales by automotive dealers were 20% ahead of the corresponding period a year earlier and new extensions of automotive instalment credits were up by more than 46%. The first half of 1955 appears to have been characterised by increasingly liberal instalment credit terms, and a tightening now seems in progress. The Federal Reserve Board's use of moral suasion appears to have resulted in a moderate tightening of credit terms by

For Immediate Attention

EBS/55/40  
Supplement 1

CONFIDENTIAL

September 1, 1955

To: Members of the Executive Board

From: The Acting Secretary

Subject: Exchange System - Brazil

Attached are the staff's analysis and recommendations regarding the proposed changes in the Brazilian exchange system, as set forth in EBS/55/40.

This matter is on the agenda for Executive Board Meeting 55/54, September 2, 1955.

Att: (1)

INTERNATIONAL MONETARY FUND

Brazil--Exchange Proposal

Prepared by Western Hemisphere Department  
and Exchange Restrictions Department

Approved by Irving S. Friedman and Jorge Del Canto

August 31, 1955

I. Present Economic Situation

1. Inflationary trends

Inflationary trends which have been in evidence in Brazil for some time, accelerated their rate of increase in recent years, particularly during the first half of 1954. Various sources have given rise to these inflationary forces. First, the balance of payments surplus during the war years, followed by rather ambitious development programs, large budgetary deficits and massive commercial credit expansion, and more recently, a set back in the export trade of Brazil, at a time when import demand is still high, have contributed to creating a serious exchange and balance of payments problem. Periodic wage adjustments that had to be made aggravated these inflationary trends.

During this process, domestic prices increased, the exchange rate depreciated in real terms, and the authorities resorted first to a policy of quantitative restrictions and to short-term borrowing to cope with the payments problem. Since the middle of 1953, the emphasis has been shifted to cost restrictions and a complicated series of multiple exchange rates was introduced.

Between December 1949 and May 1955 money supply almost trebled, while currency issued practically doubled. The rate of increase in money supply was more or less constant throughout the period, having been accelerated somewhat in the first half of 1954.

Since the last quarter of 1954 and until the first quarter of 1955 the rate of expansion in money supply slowed down. This may be associated with the levelling off in commercial bank credit to the private sector, which resulted from measures adopted by the Brazilian authorities in October 1954. However, it appears that since April 1955 there has been a resurgence of the inflationary credit expansion.

The major source of credit expansion in recent years has been the Bank of Brazil which accounts for slightly more than 50 per cent of the lending of the entire banking system. Most of the credit expansion of the Bank of Brazil has been directed toward the satisfying of government needs. This trend is obvious once again in 1955 when available data seem to indicate that

almost 80 per cent of total credit expansion during the first five months resulted from the Bank of Brazil's credit to the federal, state, and local governments.

The credit expansion of commercial banks to business and individuals, which once played a major role in the inflationary process, has recently become a rather minor factor. As of the end of May 1955, total commercial bank credit, although higher than at the end of 1954, was still lower than the all-time high level registered in October 1954.

The intensification of credit expansion by both the Bank of Brazil and the credit banks that occurred during 1954 resulted mainly from the desire to finance coffee on a large scale and to assist the Federal Government, and the very large imbalance of the State of Sao Paulo deficit.

The operations of the Rediscount Department of the Bank of Brazil, which is the agency instrumental in issuing new currency, increased five-fold between December 1951 and June 1955, practically all of this being the result of operations with the Bank of Brazil's Credit Department since rediscounts with commercial banks remained at practically the same level.

One important factor in the inflationary process of 1954 was the doubling of the minimum wage (Cr\$1,200 to Cr\$2,400 per month) effective July 1, 1954. This increase has given rise to a series of upward adjustments in the whole wage and salary structure--including the Government--all of which has substantially increased costs of production. It is feared that this adjustment has not as yet been completed, although available preliminary indices of wages for the first quarter of 1955 do not show any increase over the December 1954 level.

In Brazil, deficit financing by the Government--federal, state and municipal--has played a major role in the inflationary process. In recent years substantial budget deficits have been accentuated. During 1954 the conditions were less favorable than in previous years. The Federal Government had a large budgetary deficit and governmental agencies operating outside the general budget also incurred large deficits for which the Federal Government is ultimately responsible. In addition, some state governments had substantial budgetary deficits. For the three levels of Government, the deficit in 1954 was estimated at about Cr\$14 billion, which represents about 15 per cent of total expenditure. The budgetary and extra-budgetary deficit for 1955 for the Federal Government alone has been estimated as reaching a figure even higher than the total deficit for the whole public sector during 1954. One of the reasons for such an increase is a recently approved revision of government salaries. For all government levels the deficit this year may be of a magnitude of about 20 per cent of total expenditure.

Last year's policy on coffee, under which the Brazilian Coffee Institute bought over three million bags, has not been reflected in the Government's deficit since the amount of almost Cr\$9 billion used for these purchases (equal to about 17 per cent of Federal Government total expenditures) was supplied by the Bank of Brazil from the profits accumulated in the collection of auction premia.

Several plans have been elaborated which aim at a reduction of the 1955 deficit by both increasing revenues and reducing expenditures. Nevertheless, taking into consideration that the salary readjustment has not yet been completed (autonomous agencies and other), the rather recent increased cost of exchange for government imports and other foreign payments, and the fact that general elections will be held this year, it appears doubtful whether any reduction in the estimated deficit may occur. Furthermore, the indebtedness of the Treasury toward the Bank of Brazil increased steadily during 1955, which seems to indicate that the Federal Government is running a rather substantial deficit so far this year.

Taking the above into consideration, it appears possible that inflationary forces during the second quarter of 1955 may prove to be of such a magnitude as to offset the improvement registered during the last quarter of 1954, and the low level of expansion of the first quarter of this year.

*This goes against statement by Iudic that exp. substit. induced by deim and Whitaker*

Reflecting these inflationary forces, there has been a trend toward rising prices in Brazil. During 1953 the rate of increase in the cost of living reached an all-time high and it slowed down during 1954 and the first part of 1955. The same trend is also apparent in the index of wholesale prices. Due to the apparent time lag that exists between the rise in money supply and/or wages and prices, it is expected that the impact on prices, of the reported recent increase in money supply and a possible increase in wages in the second part of 1954, may be felt well into the remainder of 1955.

2. External situation

Brazil has been confronted with serious balance of payments disequilibrium during recent years. This disequilibrium reached a peak during 1951 and 1952, and, although it was reduced in 1953, it has become more accentuated since then.

This disequilibrium in the balance of payments led to a rapid depletion of Brazil's foreign exchange reserves--accumulated during the war period-- followed by the accumulation of very large payment arrears both in convertible and in inconvertible currencies. For the liquidation of these arrears in 1953 and 1954, a series of loans was obtained and funding agreements were undertaken. Most of the arrears problem has been settled, but instead Brazil is faced with a heavy repayment schedule extending over a period of several years. In addition, Brazil has other short-term obligations such as debit balances under payments agreements.

In the approximately ten years since the end of the war, the volume of imports has risen to relatively high levels, mainly as a result of the domestic inflationary process and other factors such as the need for fuel, the raw material needs of expanding industries, and the wheat situation. Attempts to curtail imports through a restrictive system of individual licensing proved difficult for administrative and other reasons and, later, when this system was changed in 1953 into a mixed system of cost and global quantitative restriction, the continuance of the inflationary process and credit expansion resulted in imports being maintained at a very high level.

Parallel with this increase in import demand were the growing difficulties with which Brazil was faced in marketing her export products. The fall in international prices for most export products after 1951, coupled with the increasing cost of production as a result of the inflationary process, made the exportation of several products very difficult. The special condition of coffee, whose international price increased while prices for other export products were dropping, attenuated, to a certain extent, the problem of falling exchange receipts. Later, due to reasons which include a fall in coffee prices, even coffee exports were reduced.

During the first five months of 1955, imports have been maintained at levels somewhat below those for 1954, while export proceeds were running at a much lower level than in the preceding year. The resulting trade deficit during the first five months of 1955 was of the same magnitude as the trade deficit realized during the twelve months of 1954 (\$72 million). Although export proceeds are traditionally higher during the second half of the year on account of seasonal factors, it appears that unless some radical change in trend takes place Brazil may incur in 1955 one of the largest trade deficits of recent years.

This trade deficit, plus the large payments that were made during the first five months of 1955 for services (about \$51 million) and loan amortizations (about \$47 million), resulted in a further deterioration of Brazil's payments position. In the absence of exchange reserves other than gold,<sup>1/</sup> this deterioration translates itself into an increase in Brazil's indebtedness abroad. The significance of this situation is emphasized by the fact that, traditionally, Brazil is a heavy international debtor on capital account, needing to have a large trade surplus to meet heavy current obligations for amortization remittances and service on loans.

A principal factor in Brazil's present difficulties is the sharp reduction in coffee exchange proceeds. Coffee constitutes about two thirds of Brazil's exports, and Brazil, in turn, supplies about half of the world's coffee consumption.

Coffee prices, which had been increasing since 1946, registered a record rise during the first part of 1954 (a peak of 95 cents per pound on April 1) as a result of the heavy inventory accumulations in the United States induced by the low carry-over position of Brazil and the July 1953 frost in the States of Parana and Sao Paulo. When more detailed information was obtained on the effects of the frost, at first overestimated, prices tended to decline, and importers began to draw on their inventories. At this juncture,<sup>2/</sup> Brazil established a legal minimum price of 87 cents per pound at which price the Brazilian Coffee Institute would buy. The volume of Brazilian coffee exports declined as the world market for coffee fell below this minimum. Other coffee-producing countries were able to sell their coffee at prices slightly below the Brazilian minimum price.

<sup>1/</sup> Brazil has gold reserves amounting to approximately \$322 million, of which about \$210 million has been pledged with a group of American banks.

<sup>2/</sup> In July, 1954.

to look  
place

In order to adjust to the downward tendency of prices and to permit the exportation of coffee without amending the legal minimum price, Brazil revised the exchange rate applicable to coffee exports. This was equivalent, in effect, to a reduction of the minimum price. Prices in the world market fell sharply, about 20 cents per pound, to somewhat below 70 cents, but exports kept moving until the new crops of the other coffee-producing countries began pressing the market in January 1955. A new adjustment of the exchange rate was then made, and this was followed by a further reduction in international prices. In recent weeks, the price of coffee has fluctuated at about 55 cents per pound with quotations for future deliveries much lower.

The present low level of Brazil's coffee exports, however, is not only a consequence of the drop in the price of coffee, nor is this drop in price necessarily fully explained by the current condition of oversupply of coffee. An element of speculative expectation has been built up among coffee traders in Brazil and abroad. Brazilian exporters are holding back sales in anticipation of a new exchange depreciation which would represent a higher cruzeiro price for their coffee--foreign importers are holding down purchases to the mere minimum in expectation of the same devaluation which would bring a lower dollar price.

The very high prices that had prevailed until recently have acted as a tremendous stimulus to coffee plantation all over the world. Recent estimate for the 1954-55 crop year give total exportable supply at about 34.3 million bags, while total consumption in importing countries is estimated to amount to about 30.4 million, thus leaving a carry-over of about 10 million bags. Furthermore, a further increase in world production is being anticipated for the 1955-56 crop year. From the above, it appears that the recent frost that hit the coffee plantations of southern Brazil will not have too major an impact on the short-run coffee market outlook.

### 3. Production trends

There are indications that the growth experienced by the Brazilian economy since the war is somewhat unbalanced, with agricultural and livestock output lagging behind the output of industry. Furthermore, chiefly as a result of the exchange and trade policies of the Brazilian Government, the pattern of industrial development has also been somewhat unbalanced, the major expansion occurring in sectors which appear to be greatly dependent on imports for raw materials and fuel. Various problems have recently arisen in industry such as power shortages, increasing costs for imported raw materials, and wages.

The volume of agricultural production increased substantially in 1954, reaching the highest levels on record both in value and volume. During 1955 estimates indicate that this high level of production may be maintained in spite of the frost which struck coffee plantations in the State of Parana in the last days of July. It has been reported that although this frost was more severe than the one in 1953, it did not affect the current crop, most of which had already been harvested.

Industrial production has shown some decrease in 1955, the reduction being more pronounced in the industries of the consumer goods sector. This contraction may have resulted from the stricter credit policies prevailing during the last quarter of 1954 and the first quarter of 1955, and also from the much higher wages since the doubling of the minimum wage levels in July 1954.

Among the several major industries, only the production of electric power and cement appear to show increases this year.

The rise in production costs, particularly to industries, resulting from the exchange reform<sup>1/</sup> of October 1953, and the more recent increase in wages--although no specific data are available--seems to have been substantial. Indications seem to point toward a continuation of such a trend.

No accurate data or estimates for employment or unemployment are available for Brazil. There is only one index for employment, that for employment in the Federal District, and this showed a moderate decline in 1954. The basic structure of the Brazilian labor legislation makes it very difficult for the economy, and industry in particular, to adjust employment to seasonal production conditions. If data on unemployment were available, they would probably show a rather small fluctuation.

There are indications that the growth experienced by the Brazilian economy since the war is somewhat unbalanced, with agricultural and livestock output lagging behind the output of industry. Furthermore, only as a result of the exchange and trade policies of the Brazilian Government, the pattern of industrial development has been somewhat unbalanced, the major expansion occurring in sectors which appear to be greatly dependent on imports for raw materials and fuel. Various problems have recently arisen in industry such as power shortages, increasing costs for imported raw materials, and wages.

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<sup>1/</sup> Agriculture has been favored by a somewhat preferential treatment in its import needs and other ways.

II. The Exchange System

1. The present system--essential features

The present exchange system results from the measures introduced on October 10, 1953, and its main characteristics have remained so far unchanged. It can be summarized as follows:

The par value is Cr\$18.50 per US\$1.

The system is composed of two main sectors:

(a) There is a free market for invisibles and non-registered capital transactions. This market is rather narrow, and the level of the free exchange rate has a limited economic significance. The rate tends to fluctuate rather violently in response to speculative elements.

*Shil 2  
B. C. B. said  
to be buying  
in the  
market*

(b) By far the more important is the other sector, which includes all current trade transactions, official payments, invisibles related to trade, and most of the registered capital. It is this sector that is affected by the Brazilian proposals for a change in the system. The main features of this sector are briefly described below:

(1) Exchange receipts

Exchange receipts from exports must be surrendered. The effective exchange rates applicable to them, being the sum of the official rate and of the established bonuses, are different, depending on the different commodities and on the currency. Export commodities are classified into three categories (Category I no longer includes any commodity) as follows:

Category II: Coffee and bananas.

Category III: Raw cotton, cocoa beans, sawn firewood, leaf tobacco, piassava, castor seeds, soya beans, raw hides and skins.

Category IV: All other products not included in the two categories above.

The effective export rates for each category are more depreciated in the case of exchange receipts in convertible currencies, pounds sterling and Deutsche marks, than in the case of all other currencies, as follows:

Category	Effective Rates			
	\$	E.	DM	Others
II		37.06		35.55
III		43.06		41.31
IV		50.06		48.03

Prescription of currency is enforced in respect of the currency of the country of destination of exports, with the following major exceptions:

a) payments in pounds sterling are accepted against exports to any country outside the area of convertible currencies; b) pounds sterling, Deutsche marks, and Dutch florins are, reportedly, accepted against exports to any of the three countries concerned: United Kingdom, West Germany, and Holland. Incoming payments from a number of countries are effected through clearing accounts.

now also before

(2) Exchange payments

Exchange payments are effected in two main ways:

(a) Payments for specified transactions are effected at the official exchange of Cr\$18.82 per US\$1, or equivalent in other currencies, plus fixed surcharges which vary with the type of transaction. (In some cases a 10 per cent remittance tax is added to the official rate, which makes the selling rate Cr\$20.702 per US\$1, or equivalent in other currencies.) The most important surcharge is that of Cr\$25 per US\$1, which applies to government payments, including those for imports (the only exception being wheat imports, to which a surcharge of Cr\$7.00 per US\$1 is applied); transfers of registered capital and income therefrom; and imports of books, maps, newspapers and magazines. Thus to these imports the effective rate of Cr\$43.82 applies. No exchange surcharge is applied to imports of newsprint. Finally, imports of petroleum products, although formally effected through an auction, are actually effected at the official rate plus surcharges varying from Cr\$15.00 per US\$1 to Cr\$150.00 per US\$1, depending on the products.

43:82

from 34 to 168

(b) All other payments for trade and related transactions are effected through an auction system. There are no quantitative restrictions through individual licensing. The effective rates result from the sum of: (i) The official selling rate of Cr\$18.82 per US\$1 or the equivalent in other currencies; (ii) a 10 per cent remittance tax; (iii) the auction premia. The latter are different for the different currencies, and vary from auction to auction. Cross rates, therefore, are usually broken. The auctions are separated for the five categories into which the import commodities are classified. Minimum bids are established for each category. As a mere indication of the levels of these effective auction rates, the simple arithmetic average of the rates prevailing during the period July 12-19, 1955, for the U.S. dollar, the effective Japanese agreement dollar, and for the currencies which were sold at the minimum bids (Bolivian, Polish, Turkish, Uruguayan, Hungarian agreement dollars) are given below:

	I	II	III	IV	V
US\$	93.09	117.30	197.92	263.00	276.25
Jap.\$	67.23	68.77	102.68	176.85	207.80
Minimum bid currencies	45.70	50.70	55.70	60.70	120.70

Prescription of currency is enforced in respect of the currency of the country of origin of imports, with the exception of payments to the United Kingdom, Germany, and Holland, which, reportedly can be effected in the currency of any of these countries. Occasionally other exceptions are made.

1/ This matter is being further explored by the staff with Brazil.

2. The proposed new system

(1) Preliminary considerations

In the above summary description of the present system, many details have been omitted. Nevertheless, it is clearly a complex system. Its complexity has increased through time, as a result of the introduction at different times of some new features. Although a number of technical features may be considered as unnecessary, the complexities, by and large, are the result of a number of constrictions under which the Government has been operating in the past and of attempts to comply with them. Most of these constrictions are still present, as indicated below, and appear to be influential in determining certain characteristics of the proposed new system.

The exchange crisis of the second semester of 1953, which occurred under a regime of restrictive individual licensing of imports and payments, and the experience of an unsatisfactory working of that arrangement from an administrative viewpoint have played an important role in the introduction of the auction system for imports, and make the Brazilian authorities still very reluctant to revert to that regime. On the other hand, inflationary domestic conditions, together with low levels of exchange receipts, have made it necessary to restrict imports and payments. The need for restraining import demand is still present and is a major factor in influencing the features of the proposed new system.

Under inflationary conditions the exchange scarcity has been, in part, the result of increasing domestic costs not being accompanied at times by adequate adjustments in the effective export rates. The need to keep exports moving will continue to be present in the future, which, under continuing inflationary conditions, may require an adjustable export rate. On the other hand, the Government has been mindful of the inflationary impact of high export rates and, as in the past, appears to attempt to keep the exchange rate applicable to coffee export proceeds at a lower level. The effects of a depreciation of this rate on world prices for coffee have also been an important consideration in this policy. The problem of the inflationary impact of the exchange system is aggravated by the policy of maintaining "low" exchange rates for imports affecting the cost of living and other imports, e.g. wheat and crude oil, in an attempt to reduce the rise in domestic prices by this device.

The effects on the exchange system of these conflicting aims have been made more complex by the superimposition of certain technical problems. According to the Brazilian constitution, export taxes on any product cannot be introduced by the Federal Government. This has made it necessary in the past to solve the problem of the level of export rates by introducing differential bonuses for different commodities on top of the par value. Another solution of the same problem, which is presently favored, is the discontinuation of exchange transactions based

on the present parity. This solution appears to be of help because by law the exchange rate applicable to newsprint cannot be higher than the par value rate.

The constrictions indicated above, as well as a number of political considerations, appear to be still operative and exert their influence in determining some of the major features of the proposed new system, which is described briefly below.

(2) Essential features of the system

Under the proposed new system, exchange transactions based on the present parity will be discontinued, with the understanding that a new par value will be declared by Brazil as soon as economic conditions permit.

The present feature of the exchange system, being composed of the two sections indicated earlier, will remain. No significant changes will be introduced with regard to the free market, in which most invisibles and nonregistered capital will continue to be transacted. The basic changes are introduced in the sector involving official exchange operations, which are summarized below.

The exchange rates at which the U.S. dollar and other currencies will be sold by the Bank of Brazil will be those which result from periodic auctions, as described below. The average exchange rates thus determined for the U.S. dollar in one auction day will be declared by the Bank of Brazil as the official buying rate for the U.S. dollar for the period until the following auction, for all commodities except coffee. It is understood that as at present auctions for each currency will be held a week apart. The buying rate for coffee will remain at Cr 37.06 per US\$1. It is not known what the buying rates for all other currencies will be. The official buying rates for the pound sterling, the Deutsche mark, and the Dutch guilder will be uniform.

*Handwritten notes:*  
New proposal  
Sept 27

The 10 per cent remittance tax will be maintained.

*Handwritten note:*  
understanding

Incoming payments. All exchange proceeds from exports must be surrendered. The present classification of export products will be abolished. All exchange will be purchased by the Bank of Brazil at the established buying rates. With regard to coffee, it is the intention of the Brazilian Government to modify the Cr 37.06 rate, as market conditions make it desirable, in the opinion of the Government, so that unified export rates will in time be achieved. Prescription of currency will continue to be enforced in respect to the currency of the country of destination, the present arrangements being maintained.

Outgoing payments. The present distinction between payments which are effected at the official rate, with or without a surcharge, and payments which are effected through auctions will be practically eliminated.

(a) Government payments for imports and for financial obligations, payments for imports of newsprint and paper for printing of books, crude oil and petroleum products except gasoline, wheat, fertilizers, insecticides, and agricultural equipment will be effected at exchange rates which will be the same as those resulting from the auctions (see below). However, newsprint, wheat, and petroleum products, except gasoline, will receive a direct subsidy to cover the difference between the present exchange cost and the level of effective selling rate after the new system is put into effect. During the first month of operation of the system, the subsidy will be equal to the full difference. In the subsequent months the subsidy will be reduced by 5 per cent per month, so that it will be completely removed in a 20-month period. Temporary subsidization will also be given to cover the added cost of imports and other financial charges in the case of some "autarquias" and public services, until they can revise their budgetary appropriations or effect a tariff readjustment. It is anticipated that this adjustment period will last until January 1, 1956. Thereafter, all "autarquias" and public services will be expected to cover their full exchange costs, except in the case of loan contracts with guarantee of exchange rate, which will be honored. *new period*

(b) All other private imports and payments for them, including invisibles incidental to them, will be subject to the following:

The present classification of import commodities will remain. Initially, import commodities classified in Categories IV and V of the present classification will likely be prohibited.

Permitted imports will be subject to licenses, which, however, will continue to be issued freely to the holders of valid exchange contracts purchased at an auction, as described below.

The effective exchange rates for import payments will result from the sum of the following three components:

(i) The auction premia resulting from bidding at periodic exchange auctions. The main difference between the present auctions and those envisaged under the proposed new system is that in the latter the total amount of exchange made available each auction day in each city (Stock Exchange) will be offered without distinction between categories, so that for each currency the premia will be uniform for all commodities. *How is average computed? If auctions at various places.*

(ii) The 10 per cent remittance tax. *on premia and/or exch. surcharges*

(iii) Exchange surcharges which, according to Law 2410 of January 29, 1955, will be established as the following percentages of the average auction bids in the same category in auctions held during the three months preceding the establishment of the proposed new system:

*If auctions were only for \$ the rates will be broken*

*Will these be high enough.*

Category I:	35 per cent
Category II:	50 per cent
Category III:	65 per cent
Category IV:	75 per cent
Category V:	100 per cent

These surcharges will be calculated on the basis of the U.S. dollar and will be applied uniformly to payments in all other currencies.

The auctions will continue to take place in the cities in which they are presently held and will be separate for the different currencies as long as the bilateral payments arrangements remain as they are. The pound sterling, the Deutsche mark, and the Dutch guilder will be offered for auction in a single joint auction.

*and before*

Prescription of currency will continue to be enforced with respect to the currency of the country of origin of imports, the present arrangements being maintained.

The present trade and payments agreements will remain in force, pending their renegotiation.

The regulations concerning transfers of registered capital and income therefrom will remain unchanged.

The present classification of import commodities will remain initially unchanged. Import commodities classified in Categories IV and V of the present classification will likely be modified.

Restricted imports will be subject to license, which, however, will continue to be issued freely to the holders of valid exchange contracts purchased at an auction, as provided below.

The effective exchange rates for import payments will be determined the sum of the following three components:

(i) The auction price resulting from bidding at periodic exchange auctions. The main difference between the present auction and those entered into under the proposed new system is that in the latter the total amount of exchange available each auction day in each city (stock exchange) will be divided without restriction between exporters, so that for each currency the limits will be uniform for all commodities.

(ii) The 10 per cent surcharge tax.

(iii) Exchange surcharges which according to law 2410 of January 23, 1952, will be established as the following percentages of the average auction bids in the same category in auctions held during the three months preceding the establishment of the proposed new system:

*If part of coffee does not go through free market?  
When the free rate not- 13 - rise*

(3) An analysis of the system

In this section an attempt is made to appraise the proposed new system and point out its most important economic aspects.

The likely level of the auction bids for each category of imports, assuming that the effective import rates resulting from the recent auctions represent the demand price for exchange of the importers of each category, can be obtained by subtracting from each effective import rate the category surcharge, while making allowance for the 10 per cent remittance tax. On the basis of the most recent data available, the initial uniform auction bid for the U.S. dollar would tend to be at some level within the range of Cr\$63-75.

Since the auction mechanism will be maintained, there will be a large number of multiple import rates, and cross rates will be broken. The fact, however, that each currency will be offered for auction without distinction among categories will result in a reduction of the number of multiple rates.

Considering the system as a whole, the establishment of a link between export rates and import rates represents, in principle, an improvement over the present system. There may be a decline in both the auction bids and the effective export rates from the initial levels, after the expected resumption of coffee exports at usual levels, and some possible increases in exchange receipts from other exports will alleviate the present exchange stringency. The table below shows the prevailing effective rates for the U.S. dollar in Rio de Janeiro during the first three months of 1954, when the amount of exchange auctioned was still about \$25 million per month, which can be considered approximately normal. During recent months only about \$10 million has been auctioned.

	<u>Category I</u>	<u>Category II</u>	<u>Category III</u>
January 1954	42.73	45.86	68.67
February 1954	43.61	58.79	78.72
March 1954	44.68	56.63	73.65
July 12-19, 1955	93.09	117.30	197.92

It cannot be expected, however, that effective import rates may revert to the levels of the first quarter of 1954, since prices have increased in Brazil in the meantime by about 35 per cent, and inflation continues.

On the export side, the expected initial level of the effective rates for exports other than coffee appears to be sufficiently high to give a strong stimulus to all of them, but particularly to those which are now classified in Category III. This will undoubtedly improve the international competitive position of these commodities. The new effective rates are not "equilibrium" rates in the sense of exchange rates established in a completely free market, and it is difficult to judge their appropriateness. Moreover, it is difficult to judge what their implications for other supplier countries will be, particularly since there is uncertainty what the new rate level will be.

There is some evidence that some of the exports concerned need a more favorable rate than now exists. If the auction premia and export rates decline, as indicated above, the gains in the competitiveness of certain export commodities

*which will other countries say*

will be proportionately reduced. Moreover, such a decline may reduce to a sustainable magnitude the differential between the rate applicable to coffee and that applicable to all other products. Should the differential exceed a critical point, it may be impossible to resist the inevitable pressure from the coffee sector to depreciate the coffee rate further.

2  
1  
On the other hand, it cannot be excluded that, in fact, the export rates may tend to fall to too low a level. This is because of the great impact of the surcharges on the level of the auction premia and of the method whereby exchange surcharges are fixed. In general, it can be said that to choose any past period for this purpose tends to be an arbitrary procedure. To base the calculation of the surcharges on the premia of the recent period of acute exchange stringency may give altogether unworkable results.

As for the exchange rate for coffee exports, it is proposed that the present rate be maintained, at least for the time being, with the possibility of future adjustments as market conditions change. It is difficult to assess the impact of the maintenance of the same coffee rate on the present coffee market situation. Existing speculative elements which have reduced Brazilian exports of coffee have been based on the expectations of rate changes in Brazil. It is uncertain what the market impact of the proposed action will be. Particularly in view of the importance of Brazil's exchange rate for coffee for other countries, it would seem desirable that any future changes in the coffee rate have prior Fund approval, as well as any other changes in their multiple currency system.

As to the discriminatory elements in the system, these will tend to be reduced in some respects, particularly as a result of the uniform treatment accorded to the pound sterling, the Deutsche mark, and the Dutch guilder. However, there is uncertainty as to the treatment to be accorded to transactions in inconvertible currencies. The Brazilians have suggested that this problem and its related aspect of bilateral agreements be discussed further with the Fund.

See  
Cuck's  
note  
The proposed changes on the import side may raise some difficulties. In addition to the comment above on the arbitrariness of the base period for the calculation of the surcharges made necessary by the existing legislation, the effective import rates will contain an element reflecting the competition in the auctions held in the past (the surcharge) and an element reflecting the competition at the current auctions. The economic significance of the former element is questionable. However, the high levels of the surcharges may strongly induce importers to underinvoice imports and to use free market exchange to effect payments abroad. This is because that part of the payment effected through the free market is not subject to the surcharge. The resulting increase in the free market rate may induce increasing underinvoicing of exports and thus losses of exchange for the Government. B-213

The change in the auction procedure, involving the discontinuation of the practice of allocating exchange to import categories, may result in a change in the composition of imports, particularly if inflationary conditions persist. Difficulties may arise in the case of those imports which, under the present system, receive preferential treatment in the form of special auctions

and which will not receive subsidies. The danger in this is that the Government may find that the system is not selective enough and may tend to introduce ad hoc devices which would add complexity to the system. A similar danger exists with regard to the protective features of the present system. Should the future effective rates for the individual categories prove to be not differentiated enough to protect local industries processing imported raw materials and parts, the tendency to introduce some complicating device may arise.

Finally, it must be noted that the establishment of temporary prohibitions for Category IV and Category V commodities will not represent a significant relief for the situation of exchange on account of the fact that the exchange allocated to those categories has been a very low percentage of the total.

The cruzeiro proceeds of the difference between the export rate for coffee and for other exports are expected to be substantial. No specific procedure has been set up as yet to insure that these proceeds will play a major anti-inflationary role. However, the authorities have indicated that they plan to use these funds to finance projects directly connected with the development of agricultural production in general. The proceeds of the surcharges will be mostly absorbed, at least in the initial stages of the system, by the financing of the sliding scale subsidies on imports of wheat, some petroleum products, and newsprint. The proceeds of the remittance tax will continue to be allocated, as at present, to specific purposes. It is uncertain as yet, however, whether the same tax as at present (10 per cent) will be applied to the resulting selling rate, or whether the tax rate will be reduced or modified. *which?*

It has been indicated above that the effective exchange rate for government payments initially will be higher than the present, and this will tend to result in an increase in fiscal expenditure, although an effort may be made to reduce expenditures on foreign exchange. In addition, the Bank of Brazil may need to be compensated for the losses deriving from present exchange obligations on account of registered forward sales undertaken. *and commitments*

It is not unlikely, therefore, that a net addition to the estimated budget deficit may result. It would appear necessary that, especially in consideration of the already unfavorable fiscal situation illustrated elsewhere in this paper, new sources of income be found.

As to the relations between the proposed system and the monetary situation, it is very difficult to make any prediction. The two most important variables are the use of the exchange profits, as indicated above, and the behavior of the banking system in respect to credit to importers. Should the banks extend credit to importers without restraint, even an effective policy of sterilization of the exchange profits may not result in a reduction of inflationary pressures springing from other sectors of the economy.

*4 plus increased salaries*

III. Concluding Remarks and Staff Recommendations

On the basis of the preceding considerations, it would appear that while the proposed new system still contains many multiple currency and discriminatory features, it represents an improvement over the present one. Although the rate for coffee exports continues at the present level, and subject to eventual adjustment, the proposed system provides for a more realistic rate structure, some simplification, and probably a reduction in discrimination. Uncertainties exist with respect to the operation of important aspects of the system, particularly with respect to the policies to be followed in determining the rates for inconvertible currencies. Furthermore, certain administrative complexities may impede the smooth functioning of various aspects of the system. In any case, the continuation of anti-inflationary policies will be necessary in order to obtain the desired benefits of the proposed exchange measures. The staff understands that Brazil believes that it is necessary to take the proposed measures at this time, and in the Brazilian transmittal note it is stated that the proposed measures will be put into effect immediately after Fund approval.

The staff proposes the following recommendation for the consideration of the Executive Board:

1. Brazil has requested the Fund's approval for proposed changes in its exchange system, as set forth in EBS/55/40. These changes involve, among other things, the elimination of the existing export categories and of the allocation of exchange for imports by categories as well as the establishment of fixed surcharges for private imports. Import payments will continue to be conducted at rates resulting from periodic auctions of currencies, and these rates will also be applied to exports other than coffee. Non-trade invisibles will continue to be transacted through the free market. The par value for the Brazilian cruzeiro agreed with the Fund will apply to no transactions and Brazil is not now proposing a new par value. The Fund notes that effective exchange rate unification and ultimate elimination of discrimination against transactions in certain currencies continue to be Brazil's goal.

2. The Fund does not object to the proposed changes as they apply to transactions in convertible currencies, the pound sterling, the Deutsche mark and the Netherlands guilder. The Fund will be in contact with Brazil with respect to the operations of the new exchange system, particularly with respect to its discriminatory features.

3. Brazil has indicated that it may wish to adjust its coffee export rate in the future to changing conditions. The changes in exchange rates resulting from these adjustments will be subject to the prior approval of the Fund as well as other changes in their exchange system.

4. The Fund urges the pursuance of effective anti-inflationary measures as a means of strengthening Brazil's internal and external position and thus providing the basis for achieving internal and external economic stability which is a condition for unification of its exchange system and the establishment of an adequate par value.

*Proposed because of the need for an immediate decision. Thank not wait for a change in February*

To my Brazil files

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COPY -- BRAZIL, by Mr. Kafka, August 10, 1955, as reported by Mr. Merwin in his Report on Discussions at Merrill Center for Economics, August 1 - 12, 1955.

" Since the war, gross national product has been increasing 4 per cent and population  $2\frac{1}{2}$  per cent per annum. Growth now is widespread, whereas previously it had been in particular sectors (e.g., gold cycle, sugar cycle, coffee cycle). In the 19th century social overhead was created in advance of the need for it. The principal difficulties in the way of economic growth today are inflation caused by fiscal mismanagement and overinvestment; the overvaluation of the exchange rate (which has kept imports too cheap); exchange control (which has kept out manufactured goods); and too low public utility rates. Gross savings have been relatively high, but to maintain them monetary stability must be achieved. Inflation has resulted in a large increase in debts to foreigners (arrears). This has brought in resources, but cannot continue. "

Table I. Brazil: Indices of Business Turnover and  
Volume of Production, 1953-55

(1948 monthly average = 100)

	Business transactions at constant prices	Volume of Production						Total industrial production
		Rubber goods	Iron and steel	Building construction	Cement	Electric Power	Consumer Goods	
1953								
Monthly average	141	194	197	151	183	138	137	146
1954								
January	144	177	212	(	211	150	144	151
February	148	181	222	(148	223	168	139	150
March	155	202	211	(	212	147	144	151
April	155	177	223	(	213	154	150	157
May	154	200	218	( 147	205	151	153	158
June	153	135	206	(	219	154	152	156
July	150	242	230	(	207	153	141	153
August	151	196	241	(142	230	151	135	149
September	151	197	242	(	231	161	135	151
October	156	198	256	(	211	146	154	163
November	158	200	252	( 138	224	154	161	168
December	156	213	239	(	224	157	155	164
1955								
January	152	214	234	(	243	163	143	156
February	148	196	257	(135	249	188	139	155
March	157	242	228	(	227	168 <sup>1/</sup>	143 <sup>1/</sup>	154 <sup>1/</sup>
April	158 <sup>1/</sup>	198 <sup>1/</sup>		(	n.a.	169 <sup>1/</sup>	n.a.	n.a.
May	165 <sup>1/</sup>	n.a.		( n.a.	n.a.	175 <sup>1/</sup>	n.a.	n.a.
June	165 <sup>1/</sup>	n.a.		(	n.a.	n.a.	n.a.	n.a.

<sup>1/</sup> Preliminary.

Source: Conjuntura Economica, July 1955.

II  
Table II Brazil: Indices of Prices

(1948 = 100)

		Cost of Living Sao Paulo	Wholesale Prices	
			Including Coffee	Excluding Coffee
1949		98	109	105
1950		104	124	108
1951		113	146	130
1952		133	163	147
1953		162	188	169
1954		190	246	210
1953	Mar	154	176	159
	Jun	163	177	159
	Sep	165	195	180
	Dec	166	207	187
1954	Jan	170	219	191
	Feb	173	226	193
	Mar	177	230	193
	Apr	186	242	200
	May	189	244	203
	Jun	190	247	210
	Jul	194	252	213
	Aug	197	253	217
	Sep	198	255	222
	Oct	200	256	224
	Nov	203	260	229
	Dec	205	263	233
1955	Jan	211	268	239
	Feb	212	266	237
	Mar	215	266	238
	Apr	221	269 <sup>1/</sup>	241 <sup>1/</sup>
	May	222	269 <sup>1/</sup>	241 <sup>1/</sup>
	Jun	224 <sup>1/</sup>	269 <sup>1/</sup>	243 <sup>1/</sup>

<sup>1/</sup> Preliminary.

Source: International Financial Statistics.  
Superintendency of Money and Credit  
unpublished data.

Table III Brazil: Revised Data on Gross and Net Agios from the Exchange Auctions.

(In millions of cruzeiros)

	Export Bonuses		Gross Agios <sup>1/</sup>		Net Agios	
	Monthly Total	Cumulative Total	Monthly Total	Cumulative Total	Monthly Total	Cumulative Total
1953						
October	204	204	525	525	321	321
November	714	918	1,388	1,913	674	995
December	1,043	1,961	2,074	3,987	1,031	2,026
1954						
January	653	2,614	1,578	5,565	925	2,951
February	799	3,413	2,177	7,742	1,378	4,329
March	1,009	4,422	3,133	10,875	2,124	6,453
April	932	5,354	3,377	14,252	2,445	8,898
May	655	6,009	3,082	17,334	2,427	11,325
June	810	6,819	2,487	19,821	1,677	13,002
July	944	7,763	1,794	21,615	850	13,852
August	1,134	8,897	3,016 <sup>a/</sup>	24,631	1,882	15,734
September	2,042	10,939	3,102 <sup>b/</sup>	27,733	1,060	16,794
October	1,850	12,789	2,478 <sup>c/</sup>	30,211	628	17,422
November	2,400	15,189	2,264 <sup>d/</sup>	32,475	136	17,286
December	2,330	17,519	2,713 <sup>e/</sup>	35,188	383	17,669
1955						
January	1,629	19,148	2,133 <sup>f/</sup>	37,321	504	18,173
February	1,710	20,858	1,803 <sup>g/</sup>	39,124	93	18,266
March	2,323	23,181	3,387 <sup>h/</sup>	42,511	1,064	19,330
April	2,118	25,299	3,009 <sup>i/</sup>	45,520	891	20,221

<sup>1/</sup> This includes the amounts that have been allocated to the Brazilian Coffee Institute (B.C.I.) and to the Comissao de Financiamento a Producao (C.F.P.) as follows:

a/	Cr\$ 500 million to B.C.I. plus Cr\$500 million to C.F.P.
b/	Cr\$ 500 " " " " Cr\$600 " " "
c/	Cr\$ 600 " " " " " " " "
d/	Cr\$ 200 " " " " " " " "
e/	Cr\$ 500 " " " " " " " "
f/	Cr\$1,300 " " " " " " " "
g/	Cr\$ 900 " " " " " Cr\$7 " " "
h/	Cr\$1,100 " " " " " " " "
i/	Cr\$1,600 " " " " " " " "

Source: Accounting Department, Bank of Brazil.

Table  $\checkmark$  Brazil: Foreign Trade

(In millions of dollars)

		Exports					Imports
		Coffee	Cotton	Cocoa	Other	Total	
1953	Jan	80.1	1.2	3.5	13.5	98.3	99.3
	Feb	80.3	3.0	2.0	11.7	97.0	90.8
	Mar	93.0	—	4.7	18.8	116.5	88.9
	Apr	70.6	6.2	3.9	28.3	109.0	98.6
	May	54.8	5.6	3.3	22.7	86.4	136.5
	Jun	68.5	2.2	2.9	23.8	97.4	110.4
	1st Sem	447.3	18.2	20.3	118.8	604.6	624.5
	Jul	60.0	3.8	8.3	25.5	97.6	106.2
	Aug	98.4	11.1	9.3	24.4	143.2	117.3
	Sep	123.2	10.4	8.0	25.4	167.0	104.3
	Oct	118.1	16.9	11.5	26.5	173.0	117.6
	Nov	125.5	19.1	9.8	24.0	178.4	119.8
	Dec	116.0	22.1	8.0	29.5	175.6	129.0
2nd Sem	641.2	83.4	54.9	155.3	934.8	694.2	
Total Year		1,088.5	101.6	75.2	274.1	1,539.4	1,318.7
1954	Jan	82.1	16.0	4.9	19.6	122.6	154.6
	Feb	78.6	23.9	3.3	20.1	125.9	105.5
	Mar	125.6	15.9	1.1	19.3	161.9	105.1
	Apr	97.0	18.8	1.0	19.5	136.3	114.8
	May	47.8	18.5	2.0	20.1	88.4	122.6
	Jun	40.0	23.0	12.0	20.1	95.1	146.3
	1st Sem	+ 471.1	116.1	+ 24.3	118.7	730.2	748.9
	Jul	63.6	21.5	30.9	23.1	139.1	142.9
	Aug	50.8	21.6	19.3	17.6	109.3	160.3
	Sep	72.0	14.5	26.0	22.9	135.4	150.7
	Oct	69.7	20.1	20.2	26.6	136.6	153.9
	Nov	124.3	12.2	6.0	23.2	165.7	136.2
	Dec	96.6	17.1	8.9	22.9	145.5	140.6
2nd Sem	- 477.0	107.0	+ 111.3	136.3	831.6	884.6	
Total Year		- 140 948.1 + 122 223.1 + 60 135.6 - 19 255.0			+ 22 1,561.8	1,633.5	+ 325
1955	Jan	61.6	- 13.8	- 3.7	26.6	105.7	138.7
	Feb	39.0	- 12.5	+ 14.6	24.6	90.7	103.0
	Mar	58.8	- 10.5	+ 2.6	29.4	101.3	109.4
	Apr	66.1	- 8.3	+ 2.4	35.4	112.2	113.8
	May	43.7	- 9.6	- 1.3	29.0	83.6	100.5
	Jun	80.3	n.a.	n.a.	n.a.	n.a.	n.a.
Total Jan-May		- 269.2	- 54.7	24.6	145.0	493.5	565.4

*exceptionally high coffee income*

*+22*

*higher*

*all months down*

*July August figures*

Source: Mensario Estatístico No. 47 of May 1955;  
 Superintendency of Money and Credit unpublished data.

Table IV. Bank of Brazil: Position of Treasury's Accounts<sup>1/</sup>

(in millions of cruzeiros)

	Receipts and Expenditures Accounts	Other	Total
<u>1953</u>			
March	- 1,988	+ 4,010	+ 2,022
June	- 5,014	+ 3,603	- 1,411
September	- 5,821	+ 2,617	- 3,204
December	- 5,143	- 812	- 5,955
<u>1954</u>			
January	- 560	- 5,265	- 5,825
February	- 1,711	- 4,446	- 6,157
March	- 3,856	- 3,149	- 7,005
April	- 4,693	- 2,937	- 7,630
May	- 6,111	- 1,642	- 7,753
June	- 5,840	- 1,095	- 6,935
July	- 5,450	- 347	- 5,797
August	- 5,861	+ 699	- 5,162
September	+ 1,950	- 6,536	- 4,586
October	+ 1,404	- 6,173	- 4,769
November	- 109	- 6,327	- 6,436
December	- 3,975	- 5,653	- 9,628
<u>1955</u>			
January	- 476	- 8,986	- 9,462
February	- 1,978	- 8,028	-10,006
March	- 3,120	+ 2,438	+ 682
April	- 4,066	+ 1,982	- 2,084
May	- 6,746	+ 2,884	- 3,862
June	- 5,812	+ 2,601	- 3,211

<sup>1/</sup> Does not include Foreign Exchange Accounts.

Note: The plus (+) sign indicates a creditor position of the Treasury account; the minus (-) sign indicates a debtor position of the Treasury account.

Source: Superintendency of Money and Credit.

Table VI Brazil: Foreign Trade - Monthly Averages

(In thousands of dollars)

	Exports	Imports	Balance
1948	98,372	93,416	4,956
1949	91,372	91,916	- 544
1950	112,956	90,427	22,529
1951	147,577	165,591	-18,014
1952	118,176	165,155	-46,979
1953	128,277	109,889	18,388
1954	130,153	136,128	-5,975
1955	98,700	113,091	-14,391
1953 1st Semester	100,757	104,066	-3,309
2nd Semester	155,796	115,712	40,084
1954 1st Semester	121,705	124,821	-3,116
2nd Semester	138,601	147,435	-8,834
1955 January-May	98,700	113,091	-14,391

*What is the explanation?  
more for coffee.*

1/ January-May.

Source: Mensario Estatístico No. 47 of May 1955;  
Superintendency of Money and Credit unpublished data.

VII

Brazil: Main Exports--Monthly Averages  
(In thousands of U.S. dollars)

	Total	Coffee	Cotton	Cocoa	Pine	Oil		Tobacco	Carnauba		Iron Ore	Bananas	Other
						Seeds	Wax		Wax	Cre			
1948	98,372	40,889	15,347	4,833	3,679	3,101	1,216	1,296	277	467	27,267		
1949	91,372	52,642	9,099	4,368	2,652	2,416	1,266	1,557	466	502	16,404		
1950	112,956	72,124	8,778	6,555	2,744	1,712	1,855	1,852	552	748	16,036		
1951	147,577	88,175	17,332	5,785	4,208	2,383	1,591	1,457	1,072	998	24,576		
1952	118,176	87,109	2,901	3,460	2,702	1,276	1,580	979	1,967	1,158	15,044		
1953	128,277	90,689	8,480	6,269	3,220	994	1,372	1,208	1,901	768	13,376		
1954	130,153	79,006	18,593	11,300	3,150	1,347	1,532	1,353	1,799	941	11,132		
1955	98,700 <sup>1/</sup>	58,250 <sup>2/</sup>	10,940 <sup>1/</sup>	4,920 <sup>1/</sup>	3,646 <sup>3/</sup>	1,987 <sup>3/</sup>	1,115 <sup>3/</sup>	1,329 <sup>3/</sup>	2,143 <sup>3/</sup>	923 <sup>3/</sup>	13,447 <sup>3/</sup>		
1953													
1st Sem.	100,757	74,527	3,047	3,390	2,454	930	814	848	1,718	587	12,442		
2nd Sem.	155,796	106,851	13,913	9,147	3,987	1,058	1,931	1,568	2,084	949	14,308		
1954													
1st Sem.	121,705	78,509	19,342	4,047	2,936	1,228	792	1,574	1,615	959	10,703		
2nd Sem.	138,601	79,491	17,844	18,554	3,364	1,467	2,272	1,136	1,982	923	11,568		
1955													
Jan.-May	98,700	58,250 <sup>2/</sup>	10,940	4,920	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	29,000		

<sup>1/</sup> January-May.

<sup>2/</sup> January-June.

<sup>3/</sup> January-February.

Source: Mensario Estatístico No. 47 of May 1955; Superintendency of Money and Credit unpublished data.

Table VIII. Brazil: Index of Dollar Prices  
of Exports and Imports  
(1948 = 100)

	Exports A	Imports B	Terms of Trade $C = \frac{A}{B}$
1953 Monthly average	185	98	189
1954 " "	208	84	247
1954 January	185	87	211
February	204	83	244
March	223	82	271
April	227	85	266
May	241	86	281
June	240	83	290
July	246	83	296
August	225	85	264
September	212	82	260
October	200	83	240
November	197	84	236
December	207	84	246
1955 January	195	86	228
February	183	87	211
March	173	88	197
April	172	86	200
May	n.a.	n.a.	n.a.
June	n.a.	n.a.	n.a.

Source: Conjuntura Economica, July 1955.

Table IX Bank of Brazil Official Market Exchange  
Transactions - 1st Semester 1955,  
Convertible Currencies only

(In millions of dollars)

<b>I. Purchases</b>		<u>437.6</u>
<u>With Exchange Contract</u>		255.6
1. Exports	<u>236.9</u>	
i) Coffee	181.4	
ii) Other	85.5	
2. Swaps	<u>7.4</u>	
3. Other	<u>6.5</u>	
4. Transfers from the free market	<u>4.8</u>	
<u>Without Exchange Contract</u>		182.0
1. Private lines of credit	<u>102.0</u>	
2. Consortium U.S. commercial banks	<u>80.0</u>	
<b>II. Sales</b>		<u>433.5</u>
<u>With Exchange Contract</u>		269.5
1. Imports	<u>199.9</u>	
a) Not subject to auction	<u>45.0</u>	
i) Wheat	2.7	
ii) Newsprint	4.4	
iii) Government entities	21.1	
iv) Other	16.8	
b) Subject to auction	<u>154.9</u>	
i) Petroleum	79.5	
ii) Other	75.4	
2. Services	<u>37.7</u>	
a) Government	21.5	
b) Private	16.2	
3. Capital	<u>18.5</u>	
a) Government	15.4	
b) Private	3.1	
4. Swaps	<u>7.6</u>	
5. Other	<u>5.8</u>	
<u>Without Exchange Contract</u>		164.0
1. Private lines of credit	<u>84.0</u>	
2. Federal Reserve Bank of N.Y.	<u>80.0</u>	
Balance		<u>44.1</u>

Source: Exchange Department of the Bank of Brazil, unpublished data.

Table ~~2~~. Bank of Brazil's Net Assets (✓) and Liabilities (-) in Foreign Exchange

(In millions of dollars)

	1954 Dec.	1955 June	Change - Deterioration ✓ Improvement
A. <u>Convertible Currencies</u>	-197.8	✓ -261.6	-63.8
B. <u>Inconvertible Payment Agreement Currencies</u>			
Belgian Francs	✓3.6	✓5.8	✓2.2
Czechoslovakian Koruna	✓1.1	--	-1.1
Danish Kroner	✓2.0	✓1.2	-0.8
French Francs	✓3.2	✓4.1	✓0.9
Pounds Sterling	✓3.4	✓7.2	✓3.8
Swedish Kronor	-7.3	✓0.4	✓7.7
£ - Iceland	-0.1	-1.2	-1.1
US\$ Argentina	✓10.9	-28.1	-39.0
US\$ Austria	-2.7	-3.1	-0.4
US\$ Bolivia	✓0.2	-0.2	-0.4
US\$ Chile	-0.1	-2.7	-2.6
US\$ Czechoslovakia	✓2.1	✓4.1	✓2.0
US\$ Finland	✓8.6	✓7.6	-1.0
US\$ France	-2.1	-2.0	✓0.1
US\$ Germany	-19.3	-27.3	-8.0
US\$ Greece	-2.9	-1.0	✓1.9
US\$ Hungary	✓1.7	✓1.0	-0.7
US\$ Italy	✓1.9	-5.5	-7.4
US\$ Japan	-1.1	✓11.1	✓12.2
US\$ Netherlands	-5.1	-3.0	✓2.1
US\$ Norway	✓2.3	✓0.2	-2.1
US\$ Poland	✓2.5	✓1.6	-0.9
US\$ Portugal	-5.6	--	✓5.6
US\$ Spain	✓4.8	✓7.2	✓2.4
US\$ Turkey	-2.9	✓2.3	✓5.2
US\$ Uruguay	-12.7	-7.8	✓4.9
US\$ Yugoslavia	✓2.9	✓2.8	-0.1
C. <u>Blocked Currencies</u> <sup>1/</sup>	-9.1	-12.7	-3.6
Total	-217.6	-299.3	-81.7

<sup>1/</sup> Includes both blocked currencies and balances on payments agreements in cruzeiros.

Source: Exchange Department, Bank of Brazil.

Average the previous years

Table XI Brazil: Coffee Exports for 1955 Compared with 1954  
(In thousands of bags)

Month	Week ending	To United States	To Europe	To Other Countries	Total	
					1955	1954
January		399	370	95	864	1,109
February		229	264	44	537	916
March		366	296	40	702	1,107
April		+ 750	373	48	-1,171	1,246
May		322	293	108	+ 723	528
June		+ 829	+ 388	+ 139	++ 1,356	468
July	7/2	179	114	23	316	63
	7/9	68	90	10	168	154
	7/16	150	112	14	276	151
	7/23	137	40	19	196	117
	7/30	<u>100</u>	<u>97</u>	<u>22</u>	<u>219</u>	<u>131</u>
		- 634	+ 453	- 88	++ 1,175	616
August	8/6	116	62	28	206	137
	8/13					
Total January-July		3,529	2,437	562	<sup>538/</sup> +6,528	5,990

Source: Pan American Coffee Bureau, Coffee Market, New York.

Table XV. Brazil: Estimated Foreign Exchange Receipts and Payments in Convertible Currencies, during the Second Semester of 1955

(In millions of dollars)

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
<b>1. RECEIPTS</b>							
a) Exports	72.4	72.4	72.4	73.4	60.0	60.0	413.6
b) Drawings on private banks <sup>1</sup> \$200 million loan	60.0	60.0	60.0	60.0	60.0	60.0	360.0
	13.4	13.4	13.4	13.4	--	--	53.6
<b>2. PAYMENTS</b>							
a) Current imports	79.5	88.0	85.3	70.8	55.0	63.4	442.0
Government and other	6.2	6.2	6.2	24.7	36.2	36.2	115.7
Newsprint	4.0	4.0	4.0	4.0	4.0	4.0	24.0
Oil & Petrobras	1.2	1.2	1.2	1.2	1.2	1.2	7.2
Motion pictures	--	--	--	8.5	20.0	20.0	48.5
Books & magazines	0.6	0.6	0.6	0.6	0.6	0.6	3.6
Other (auction system)	0.4	0.4	0.4	0.4	0.4	0.4	2.4
	--	--	--	10.0	10.0	10.0	30.0
b) Current Invisibles	2.9	3.0	3.9	2.9	6.8	3.2	22.7
External public debt	0.1	0.2	1.1	0.1	4.0	0.4	5.9
Brazilian Treasury Delegation	2.0	2.0	2.0	2.0	2.0	2.0	12.0
Banking interests	0.3	0.3	0.3	0.3	0.3	0.3	1.8
Scholarships	0.2	0.2	0.2	0.2	0.2	0.2	1.2
Other (Light & Power, Bonds & Shares, etc.)	0.3	0.3	0.3	0.3	0.3	0.3	1.8
c) Contractual Obligations--long-term or renewable	15.1	12.5	9.5	12.7	7.8	14.7	72.2
Eximbank \$300 million loan	4.2	4.2	4.2	4.2	4.2	4.2	25.2
Eximbank \$75 million - interest	0.3	--	--	0.4	--	--	0.7
Private banks \$200 million loan - interest	0.9	--	--	1.1	--	--	2.0
Reduction of Swaps	5.4	3.3	0.2	0.2	--	1.5	10.6
Priorities of Other Commitments	4.3	5.0	5.1	6.8	3.6	9.0	33.8
d) Contractual Obligations - maturing 1955-56	55.2	66.2	65.7	30.5	4.2	9.3	231.2
Federal Reserve Bank - \$160 million loan	13.4	13.4	13.4	13.4	--	--	53.6
Wheat	--	15.0	6.6	--	--	--	21.6
Petroleum products <sup>1/</sup>	17.9	18.0	27.7	9.8	--	--	73.4
Other imports <sup>1/</sup>	21.2	17.1	15.0	5.6	2.5	7.6	69.0
Other imports licensed prior to Inst. 70	0.5	0.5	0.5	0.5	0.5	0.5	3.0
Light & Power - exchange closed	2.3	2.3	2.5	1.2	1.2	1.2	10.7
Balance <sup>1/</sup> or -	-6.1	-14.6	-11.9	-2.6	-5.0	-3.4	-28.4

22.7

72.2  
95.0

231.2  
Can Brazil  
avoid these  
blat?

<sup>1/</sup> Includes both exchange already closed and outstanding exchange certificates.  
Source: Exchange Department, Bank of Brazil.



# Office Memorandum

MLC  
R

TO : The Managing Director

DATE: July 11, 1955

FROM : Irving S. Friedman *ISF*

SUBJECT: 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. *OK*

cc: Mr. Cochran



# Office Memorandum

R  
CONFIDENTIAL

TO : Mr. Ivar Rooth  
FROM : Jorge Del Canto *JDC*  
SUBJECT : Stock of coffee in Brazil

DATE: July 12, 1955

With further reference to our note of yesterday, I have received today a confidential weekly news summary of SUMOC, which has the following to say on coffee stocks:

"One aspect of the present coffee situation which is a matter of concern, is the volume of the coffee carry-over into the 1955-56 marketing year, estimated at approximately 6.5 million bags. Nevertheless, this stock should not sensibly affect the statistical position of coffee in the incoming coffee season, insofar as nearly 3.2 million bags, which were purchased by the Brazilian Coffee Institute in order to support the prices, are already out of the market. The balance of 3.3 million bags that are held by private concerns should not have a major impact on the quotation of the product in the 1955-56 season, because the minimum technical reserve available on ports of embarkation to satisfy exports is estimated at about 3 million bags." *(probably part of the 3.3 held by private concerns)*

Source: "Cambio e Comercio Exterior"  
Informacao Semanal, Rio, July 2, 1955.

C O P Y

Ministerio da Fazenda  
GABINETE DO MINISTRO

Rio de Janeiro

July 7th, 1955

Dear Mr. Bernstein

I received the two copies of your work and I am grateful for the promptness with which you fulfilled your promise.

The forty five day guarantee against losses caused by modifications on exchange rates for export operations was abolished yesterday. Within that delay we will certainly establish a new plan which I will send you immediately in order to have your authoritative opinion about it, before its indispensable presentation to the Monetary Fund.

With my best regards, I am,

most sincerely yours

/s/ José Maria Whitaker  
Ministro da Fazenda

Mr. Ivar Rooth

Room 935

(1)

#11

To Brazil file  
**PRESS REPORTS**

The Financial Times  
London  
July 5, 1955

**BRAZILIAN-GERMAN PAYMENTS PACT  
FIRST STEP TOWARDS NEW MULTILATERAL SYSTEM**

from  
Our Own Correspondent

BONN, July 4 - Trade between West Germany and Brazil will in future be settled in limited convertible marks. The offset accounting system has been abolished in the Trade and Payments Agreement concluded in Rio last Saturday.

German officials see the pact as a first step in the setting-up of a new multilateral payments system outside the European Payments Union. The system would comprise Britain, Germany, Brazil and the Netherlands.

It is believed here that talks between Britain and Brazil on the one hand and the Netherlands and Brazil on the other to complete the "Hague Club" (representatives of the three European countries discussed the Brazilian situation at The Hague in May) are to start soon.

**FEATURE OF SYSTEM**

Under the new system, according to German officials, Brazil will be free to use all of her marks earned for purchases in any of the other member countries, and vice versa.

But there will be limitations in the use of these currencies elsewhere, and, in particular, the use of them in the dollar area will be discouraged.

Germany's credit balance of about \$32m. is to be used to pay for German imports from Brazil, so that there will be no formal consolidation of trade arrears. However, since this would threaten a breakdown in trade with Brazil for lack of means of payment, certain credit facilities are envisaged. The British and Dutch Governments will be kept informed.

German capital investments in Brazil will, as in the past, be periodically reviewed by the mixed German-Brazilian Commission.

Apart from the Mannesmann Steel Tube Works, which are scheduled to start operations in the late autumn--estimated capacity is 75,000 tons of tubes per year--recent German capital investments in Brazil include a chemical plant for the production of D.D.T., built jointly by Farbwerke Hoechst and the American firm, W. R. Grace; a new pharmaceutical plant by Böhringer; the Mercedes car works in Sao Paulo; a pump-making enterprise near Sao Paulo; and a plant for electrical equipment established by Schorch.

The Financial Times  
London  
July 2, 1955

### KRUPPS' PROJECT

The Krupps project to build a plant with an annual capacity of 50 large locomotives is still hanging fire.

German-Brazilian trade has declined this year as a result of uncertainty in the coffee market. German imports during January-April amounted to DM.172m., against DM.203m. during the comparable period of 1954. German exports to Brazil amounted to DM.137m. (DM.191m.).

Our Own Correspondent

### FLEXIBILITY IN TRADE

from  
Our Own Correspondent

RIO DE JANEIRO, July 4 - The Brazilian Foreign Ministry, in an official statement, says that the agreement with West Germany has successfully concluded negotiations intended to give larger flexibility to trade between Brazil and Germany.

It points out that the adjustments made have laid down the basis for a multilateral system of trade and payments, which constitutes an effective contribution to the liberalisation of world trade, because of possible support from other countries.

### FEATURES OF SYSTEM

Under the new system, according to German officials, Brazil will be free to use all of her marks earned for purchases in any of the other member countries, and vice versa.

But there will be limitations in the use of these currencies elsewhere, and, in particular, the use of them in the dollar area will be discouraged.

Germany's credit balance of about \$300m. is to be used to pay for German imports from Brazil, so that there will be no formal consolidation of trade surpluses. However, since this would threaten a breakdown in trade with Brazil for lack of means of payment, certain credit facilities are envisaged. The British and Dutch governments will be kept informed.

German capital investments in Brazil will, as in the past, be periodically reviewed by the mixed German-Brazilian Commission.

Apart from the Mannesmann Steel Tube Works, which are scheduled to start operations in the late autumn--estimated capacity is 75,000 tons of tubes per year--recent German capital investments in Brazil include a chemical plant for the production of D.D.T., built jointly by Farbwerke Hoechst and the American firm, W. R. Grace; a new pharmaceutical plant at Boniniger; the Mercedes car works in Sao Paulo; a pump-making enterprise near Sao Paulo; and a plant for electrical equipment established by Schenck.

INTERNATIONAL MONETARY FUND

July 11, 1955

Mr. Rooth:

As requested this morning.

I am sorry you could not get me,  
but I was lecturing to the trainees.



J. Del Canto

Attachment

Jorge Del Canto



# Office Memorandum

*MC*  
*To my Brazilian files*  
*R* → *R*

TO : Mr. Julio G. del Solar

DATE: July 11, 1955

FROM : Edison Zayas *EZ*

SUBJECT: Brazil's Coffee Carry Over from the 1954-55 Crop

The New York Times of July 10, 1955 reports that Brazil's coffee carry over from the 1954-55 crop is estimated to amount to some 6.2 million bags, of which 3.2 million are held by the Brazilian Government. Various previous reports have indicated that Brazil was expected to have a carry over of about 6 million bags of coffee at the beginning of the 1955-56 marketing season (July 1-June 30). However, the Brazilian Coffee Institute has stated that the carry over on June 30, 1955 would be 5.3 million bags.<sup>1/</sup>

During the 1954-55 marketing season, coffee exporters had at least three alternatives in handling their coffee: (a) to sell their coffee abroad at the market price, (b) to sell it to the Brazilian Coffee Institute on the basis of the minimum price, or (c) to carry their coffee under special credit facilities extended by the Bank of Brazil (special financing for exporters on the basis of 100 per cent of the value).

It was reported during the 1954 Consultations that the Brazilian Coffee Institute has acquired 3.1 million bags. It <sup>thus</sup> appears that between 2.2-3 million bags of coffee are being held by producers and exporters under the special loan of 100 per cent of the coffee value, at the minimum price fixed by the Government. See 1954 Consultations--Brazil, SM/55/36, Part I, page 13, and Part II, page 18.

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<sup>1/</sup> See Brazil--Recent Developments, Divisional Paper S18, June 23, 1955, page 21.

June 30, 1955

The Brazilian authorities have stated that it is their intention to take steps towards simplification of the exchange rate system. On the following conditions, the Fund hereby gives advance approval to shifts of individual commodities:

- a) as far as export rates are concerned,
  - from an export category to which a lower export bonus applies to an export category to which a higher bonus applies.
- b) from an import rate which is lower than the rate at which Government imports are paid after the change that took place a couple of days ago. (Give instead of these descriptions or add to the descriptions the factual rates which I do not have.)

This approval is given only for so long as

- 1) the official rates is Cr\$18.36 per US\$1,
- 2) the effective export rates for the established export categories remain those indicated below, which result from the addition of the presently established export bonuses to the present rate of Cr\$18.36 per US\$1 or the equivalent in other currencies. The present effective export rates for the U.S. dollar and for the equivalent in other currencies are: Cr\$37.06 for exchange receipts in U.S. dollars and pounds sterling and Cr\$35.55 for exchange receipts in other currencies, for Category II; Cr\$ 43.06 and Cr\$ 41.31, respectively, for Category III; and Cr\$50.06 and Cr\$48.03 for Category IV.

This advance approval does not apply to shifts of coffee, cocoa and cotton which remain subject to prior consultation.

This general approval should not be applicable if by new rules, there are given more discrimination between various currencies than are done at present. (I have not attempted to lay down the rule in formal language.)

This advance approval is valid until \_\_\_\_\_.

(January 1, 1956)



# Office Memorandum



TO : Mr. Rooth  
FROM : Jay Reid *J.R.*  
SUBJECT: Brazil

DATE: June 28, 1955

Mr. Paranagua has telephoned Rio de Janeiro, and has been assured that there is no factual basis for the United Press report that an important change in the exchange system is about to be made without consultation here.



# Office Memorandum

TO : Mr. Rooth

DATE: June 9, 1955

FROM : Irving S. Friedman *ISF*

SUBJECT: Research Department Study of the Brazilian Exchange Auction System

I have read in SM/55/2, Revision 2, June 8, 1955, Staff Studies in Progress, that the Research Department is doing an analytical study of the Brazilian exchange auction system. I would like to inform you that I have never heard of this study before and that Mr. Sacchetti of our Department, who has been in Brazil on a number of missions, has been working in this field for the last two years. I have also been informed that the Western Hemisphere Department had advised the Research Department that they thought the person best qualified to comment on the paper was Mr. Sacchetti. I have never seen the draft, as well as never having known about the proposed study.

In this connection I would like to reiterate a suggestion which I made some time ago, namely, that all Departments be kept informed of the general work being done by the others and that the Board not be informed of any studies being done until Departments have had a chance to make comments.

Excerpt from letter of Mr. Eugenio Gudin,  
Rua da Candelaria, 19, Rio de Janeiro

dated June 22nd, addressed to Mr. Bernstein:

“ In reading your paper on “Fund Charges and Payments Problem”, I wrote the following pencil note at the margin:  
“Could not the Fund, in specific cases, help countries to overcome difficult junctures originated by special adverse circumstances, such as Chile (copper); Brazil (coffee blunders); Argentina (repercussions of political errors), etc., provided that there be hopes of improvement within sight and probability.” In other words admit that countries make mistakes and blunders and that if they are willing to help themselves the Fund might help them too. ”

June 17, 1955

June 17, 1955

Comments on Draft No. 3.

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Page 6. My impression is that at least most of some 3 million bags of coffee that are taken off from the market are held by the Coffee Institute. Is that not in reality a kind of stabilization arrangement? My feeling is that on these bags of coffee there ought not to be any windfall profits but there may be on other coffee. I don't know anything about what ~~it~~ <sup>it</sup> would mean. I therefore think you should reconsider whether to rewrite the sentence. If you think that the statement is correct I would suggest that you delete the words "to establish" and introduce the words "e.g. by establishing."

Page 17. I would delete the words "some urgent needs for bank credit were presumably met in this way" at the end of the full paragraph.

Paragraph 18. Not knowing the actual situation of the commercial banks, I would like you to find out whether the commercial banks can expand their credit. It may be that at present they are not even fulfilling the liquidity rules laid down. In such a case, I don't think they could expand.

Page 25. As we do not know what kind of technical assistance Brazil wants to have, you should not make the statement in the last sentence as definite as it is. I think it would be better if you said that the Fund will, of course, "try to" make it available.

R

June 20, 1955

Memo for E. M. Bernstein.

Page 7. The first full sentence. It may be that it is clear enough for the Brazilian authorities but I do not think that it is clear for an ordinary reader.

Last paragraph. Second line from the bottom. You speak of "approximately the same rates." I think it is better to say that they should be either brought into category 1 or that there should be no surcharge on them but that they ~~only~~ should pay ~~at~~ the official export rate. That would mean creating a new category.

Last sentence on page 7. If you mean that exchange for each of the five import categories would continue to be allocated, you should insert the words "each of " after "exchange for." You ought, in this paragraph, to say whether there should be auctions for various currencies or if all currencies should be dealt with in the same auction.

Page 8; lines 2 to 6. Is this statement correct? You do not give any reasons for it.

Page 9. Last 2 lines. This is the first time that you make the statement that in both systems, the surcharge should be substantially the same for dollars, sterling, etc. Should this not have been said already before?

Page 12, lines 5 to 7. This is not necessary under alternative 1, if the exchange bought at an auction may be used for any category if the fixed surcharges are paid for that category. If you add something to that effect, you will have to change the first three words in the next sentence.

Lines 9 and 10. After "there can" insert "unless modified as said on page 14." If you make the change suggested on line 7 and following, you might have to change this sentence too.

My reflection after having read this part of your new paper fairly carefully is that it would be better to go over from the present system to alternative 1 than to the free export-import rate, at least to begin with. I am therefore in favor of alternative 1 if it is modified as you suggest. The main weakness of this modified alternative is the difficulty of fixing the surcharge for each category.

Page 14. Lines 5 to 8. This is a good statement but you ought to make it clear whether you are speaking of auctions for separate currencies or as I hope, one auction for all currencies, or anyhow not more than two auctions, one for dollars and one for other currencies.

2/856

Crick

Brazil

In early October there will be a Hague-club meeting at Rio.  
Leslie Provan will (prob. assisted by Crick) will represent UK.

Brazil has so far only done a minimum of what should be done.

E.M.B.

Some changes will be introduced, probably including reference to newspaper reports about ~~an~~ overhaul of exchange system.

FINAL DRAFT

CONTAINS CONFIDENTIAL INFORMATION

Do not show it to the Brazilians

R

International Monetary Fund

BRASIL

PART I

Staff Report and Recommendations - 1954 Consultations

Prepared by Staff Representatives for 1954 Consultations with Brazil

(Reviewed by the Committee on Article XIV Consultations)

Approved by Irving S. Friedman and Jorge Del Canto

May 19, 1955

I. Introduction

In accordance with the procedure adopted for the 1954 Consultations, a staff mission consisting of Mr. J. Del Canto, head, Messrs. U. Sacchetti and J. J. Thackara held discussions in Rio de Janeiro with representatives of the Brazilian Government between March 17 and April 13, 1955. The Brazilian officials with whom the meetings were held included the following:

1. Ministerio de Fazenda - Superintendencia de Moeda e de Creditos (SUMOC)

Mr. Otavio Gouvea Dulhosa, Diretor Executivo; Mr. Herculano Borges da Fonseca, Chefe, Departamento Economico; Mr. Sydney Alberto Latini, Chefe, Departamento de Coordenacao de Orcamentos; Mr. Casimiro Antonio Ribeiro, Chefe, Departamento de Estudos Economicos; Mr. Guilherme Augusto Pegurier, Chefe, Departamento de Registros e Prioridades; Mr. Christiano Nery Sampaio Vianna, Economista, Departamento de Coordenacao de Orcamentos; Mr. Antonio de Abreu Coutinho, Economista, Departamento de Coordenacao de Orcamentos; Mr. Paulo Pereira Lira, Economista, Departamento de Estudos Economicos; Mr. Helio Megalhaes Escobar, Economista, Departamento de Estudos Economicos;

Mr. Emano Galveas, Economist, Departamento Economico; Mr. Ricardo Moura, Economista, Departamento de Coordenacao de Orcamentos; Mr. Francisco de Oliveira Claussen, Economista, Departamento de Coordenacao de Orcamentos; Mr. Olindo Mury Knudt, Economista, Departamento de Coordenacao de Orcamentos.

2. Ministerio da Fazenda

Prof. E. Lopes Rodrigues, Diretor General da Fazenda; Mr. Alexandre Kafka, Assessor.

3. Banco do Brasil

Mr. Paulo Foeck Correa, Diretor, Carteira de Cambios; Mr. Charles P. Hargreaves, Chefe De Gabinete, Carteira de Cambios; Mr. Lazaro Baumann das Neves, Assessor Tecnico, Carteira de Cambios; Mr. Euvaldo Dentes Motta, Assessoria Tecnica, Carteira de Cambios; Mr. Dirceu Pequeno Lima, Assessoria Tecnica, Carteira de Cambios; Mr. J. Tosta Filho, Diretor, Carteira de Comercio Exterior; Mr. Walter Blank, Assessor Tecnico, Carteira de Comercio Exterior.

4. Banco Nacional de Desenvolvimento Economico

Mr. Roberto de Oliveira Campos, Superintendent; Mr. Euvaldo Correia Lira, Chefe, Departamento Economico; Mr. Jose de Mesquita Lara, Chefe, Departamento de Projetos; Mr. Celso Furtado, Economista, ECLA.

5. Itamaraty (Foreign Office)

Mr. Antonio Correa de Lago, Diretor Suplente, Departamento Economico.

In the beginning of April, towards the end of the staff group's stay in Brazil, the Finance Minister, Sr. Eugenio Gudin, and the President of the Banco do Brasil, Sr. Clemente Mariani Bittencourt, <sup>tendered</sup> ~~tended~~ their resignations. The new Minister of Finance, Dr. Jose Maria Whitaker, assumed office on April 13; the post of President of the Banco do Brasil was subsequently filled by Dr. Alcides da Costa Vidigal. The staff mission met Prof.

Eugenio Cudin, former Minister of Finance, and the new Finance Minister, Mr. J. H. Whitaker, and discussed with them the broad aspects of Brazil's economic and exchange policies.

## II. Fund Relations with Brazil

Brazil is an original member with a quota of \$150 million. The par value of the cruzeiro is Cr\$18.50 per U.S. dollar. Brazil initially paid 25 per cent of its subscription in gold and the balance in cruzeiros. Brazil has drawn several times on the Fund, beginning in 1949. Total purchases from the Fund to date have been \$168.5 million and repurchases \$103.0 million. The last purchase was in December 1953, of £10 million, which was used in making an original payment under an agreement with the United Kingdom for the financing of commercial arrears. There was also a purchase of £10 million in 1951. Brazil's other purchases from the Fund have been in dollars. Outstanding purchases are currently \$65.0 million, with an agreed repurchase schedule for 1957 and 1958. These drawings bring the Fund's holdings of cruzeiros to 119 per cent of the quota. A repurchase obligation of \$34.4 million was ascertained for the financial year ended April 30, 1953, but the Executive Board approved a postponement. Brazil would discharge this obligation and any repurchase obligation that may have accrued as of April 30, 1954, in accordance with the previously mentioned schedule of repayment in 1957 and 1958 which was approved at EBM 53/78 of October 23, 1953.

The last Article XIV Consultations with Brazil were held in Washington in 1953. The Executive Board took the following decision at EBM 53/78 of October 23, 1953:

"1. The Government of Brazil has consulted the Fund under Article XIV, Section 4 of the Articles of Agreement concerning the further retention of its transitional arrangements.

"2. Brazil has advised the Fund regarding the establishment of a new exchange system effective October 12, 1953 (EBS/53/29, 10/10/53). The new system has the following features:

"(a) Two effective export rates result from the payment to exporters of bonuses of Cr\$5.00 and Cr\$10.00 per U.S. dollar or equivalent in other currencies of export receipts. These rates are Cr\$23.36 per dollar for coffee exports, and Cr\$28.36 for other exports. The par value rate on the buying side of Cr\$18.36 per dollar will only apply to government transactions and certain loans.

"(b) On the selling side, the official rate of Cr\$18.82 will apply to government imports and other government payments including payments of commercial arrears, as well as to private imports of wheat and newsprint. All other imports are classified into five categories and will come in under five effective fluctuating auction rates, with a separate rate for each of the five markets. There is no list of prohibited goods. The Bank of Brazil auctions exchange certificates (promesa de venta de cambio) in various currencies in the stock exchanges. Separate certificates are issued for each of the five categories of imports. The certificates give the bearer the right to purchase exchange at the par value rates or the equivalent for other currencies plus the existing taxes and charges. Thus the new effective fluctuating auction rates will consist of the prices for the exchange certificates plus the appropriate official exchange rates. The Bank of Brazil allocates the exchange for each currency in each of the markets at its discretion.

"(c) The free market will continue to be used for the invisible and capital transactions effected through it in the past. Trade transactions have been removed from the free market. As for capital transactions, certain loans which are registered will come in at the official rate and the service of these loans will also be made at the official rate. All other incoming and outgoing capital will go through the free market. Profits on registered capital will be remitted through the official market within the established limits, and any additional amounts will be remitted through the free market.

"3. The Fund notes that the minimum surrender price system as well as the mixing system for exports are eliminated, and welcomes the simplification of the export rate structure, the number of exports rates being reduced to two. On the import side, the new system should correct the overvaluation of the import rate which has existed in the past. In addition, the procedure established under the new auction system, from a monetary point of view, in effect amounts to 100 per cent advance deposit requirement. Moreover, after the importer purchases the required foreign exchange he is assured of an import license. Therefore, this system should facilitate the avoidance of new arrears, assuming that forward exchange transactions are appropriately managed.

"4. The structure of import rates is, however, complicated by the establishment of five categories of imports (other than government and certain essential private imports) with five categories of certificates

for the various currencies which will produce numerous fluctuating rates for such imports. The Fund is concerned with this proliferation of multiple import rates. The Bank of Brazil will influence the markets only by shifting of commodities between the categories and by the allocation of exchange to each auction market. The maintenance of orderly cross rates among the effective auction rates may prove to be impossible. Presumably there will be an added complication from the establishment of auction markets in a number of cities. Under such a system it is likely that substantial spreads between the five auction markets will exist and that wide fluctuations in the rates in these markets may prevail. The Fund notes that the new system places greater emphasis on the price mechanism to restrict imports and the adjustments of prices to international markets rather than on individual import licensing. On the other hand, the Fund notes that the composition of imports will be considerably affected by the accumulated inflationary pressures and the compartmentalization of the exchange markets. The business community may also find difficulties in adjusting its operations to the uncertainties in the new system. The Fund further notes that the reliance on the cost restriction element is qualified by the system of allocating exchange to each category on a global basis. Administrative difficulties which have been encountered in the previous exchange system will not be absent henceforth, particularly considering the complexity of allocating exchange and commodities among the five categories. Not enough information is available to form a judgment on the free market at this time.

#5. It is understood that the present system is an emergency measure and is temporary in character, presumably continuing in effect only until the existing import control law, which appears essential to its operation, expires on December 31, 1953. The Brazilian authorities have requested that a Fund mission visit Brazil to consult on the formulation of a new exchange system. The Fund agrees to this request.

#6. Brazil has been experiencing continued inflation. The Brazilian authorities are taking important measures to reduce some of the inflationary pressures, including efforts to achieve balanced budgets, the restraint of credit expansion, reduction of speculative activities in real estate and the strengthening of the banking system. Since continued domestic inflation must necessarily hamper sound economic growth and contribute to exchange difficulties, the Fund urges the vigorous implementation of these measures and considers that attention should be given to additional measures necessary for the achievement of monetary stability, including consideration of more thoroughgoing credit policy and control. Additional disinflationary results may be produced by the operation of the new exchange system, particularly if caution is exercised in expending exchange profits.

#7. Brazil has experienced an approximate balance in its external trade during the first half of 1953. Since exports to the dollar area have declined considerably, this balance has been achieved through the use of intensified restrictions, particularly on dollar imports, resulting in a low level of imports. With the assistance of the Export-Import Bank credit, Brazil has made considerable progress in making payments in arrears in convertible currencies. At present, negotiations are nearing completion with the United Kingdom and Germany with respect to agreements on the payment of arrears.

The terms of these agreements will have an important bearing on Brazil's trade and balance of payments positions. The present low level of foreign exchange reserves, together with the present payments position, including the existence of arrears, requires the continued use of restrictions.

"8. With respect to the recent action taken by Brazil to modify the stamp tax on exchange transactions and to include it in the official selling and buying rates of the Bank of Brazil, the Fund is giving further consideration to the possible multiple currency aspects of this matter.

"9. In concluding the 1953 consultations, the Fund has no other comment to make on the transitional arrangements maintained by Brazil."

A fact-finding group was in Brazil in February 1954 to study the exchange system. Since that time Brazil has made a number of further changes/ in the exchange system. (On some of these changes the Fund has been consulted.) These include the changes of August 1954 (EBM 54/48 of August 18, 1954); the changes of January 1955 (EBM 55/3 of January 17, 1955 and EBM 55/5 of January 28, 1955); and those of February 1955 (EBM 55/72, February 7, 1955).

### III. Summary of Discussions

#### 1. Introduction

The year 1954 is characterized by a significant change in the government which led to an increased realization that firm and vigorous corrective policies were urgently needed to make really lasting progress in reconciling rapid economic growth with balance of payments stability. It was increasingly realized by the Cafe Filho government from the beginning that in the long run sustained economic growth calls for a coordination of policies on foreign exchange, government finance, money and credit, investment, and wages in such a way that neither internal expansion nor balance of payments equilibria would be sacrificed.

The new policy makers had to face in August 1954 the following problems:

1) a serious payments situation arising from the price policy for coffee which led in turn to (a) a reduction of coffee consumption in the U.S., (b) increase in the use of soluble coffee, (c) increase in the imports of coffee by the U.S. from other areas, and (d) reduction of stocks by importers and roasters in the U.S.;

2) a heavy short- and medium-term indebtedness that had developed as a consequence of a policy of overimportation, much in excess of the country's ability to pay;

3) an aggravation of inflationary trends arising from: (a) the doubling of minimum wages, (b) an intensification of credit expansion, both by the Bank of Brazil and the private banks (resulting in an increase directed primarily to finance coffee on a large scale and to assist the Federal Government and the State of Sao Paulo), and (c) budgetary imbalance.

The Brazilian Government has attempted to meet these difficulties by pursuing fiscal and credit policies designed to achieve a balanced budget and to maintain domestic monetary equilibrium. Agricultural production, particularly for export, is being stimulated and imports are being curtailed in order to enable a gradual repayment of short-term loans contracted abroad. It was against this background that the staff group conducted its discussions. From its talks with the new ~~Minister of Finance~~ the staff group gathered the impression that he is concerned with the seriousness of the inflation problems and that previous efforts will be continued.

## 2. Internal Developments

### A. Production and National Income

The Brazilian representatives said that economic activity continued at a high level during 1954, higher than in 1953, although the rate of growth, having been affected by internal and external developments, was less than in previous years. A slight recession had taken place during the first half of the year because of the uneasiness created in the business community by the announcement of the increase in the minimum wage policy. A moderate recovery occurred in the second half of the year. It then leveled off toward the end of the year and the first part of 1955. A remarkable expansion of electric power (43% increase over 1953) in the Rio-Sao Paulo area compensated for a fall in some other activities.

The Brazilian representatives said that national income data were not yet available for 1954. However, on the basis of provisional data, it was their opinion that national income, adjusted for prices, showed a moderate increase in 1954.

The Brazilian authorities indicated that the gross value of agricultural production had increased by 24.5 per cent in the year 1954, from a total of Cr\$100.4 billion to Cr\$125.2 billion. This increase, however, was largely due to an increase in prices. Coffee production--Brazil's leading crop--declined because of the 1953 frost, while most other crops, such as cereals and other foodstuffs, increased substantially.

This increase in production was attributable not only to the opening of new rich farm areas--particularly by the opening of new farm land in the western regions in Sao Paulo and Parana--but also attributable to

increases in productivity, associated with a more intensive use of agricultural machinery, fertilizer, selected seeds, pest controls, development of irrigation and soil conservation.

In the opinion of the Brazilian authorities other factors accounting for a good agricultural year were: a) the new exchange policy adopted beginning in October 1953, designed by the monetary authorities to improve the competitive position of Brazilian exports in world markets; and b) a policy of easy financing of agricultural production. The latter factor was reflected not only in the coffee support program, purchases by the Coffee Institute alone totalling Cr\$7 billion, but also in special credits granted to agriculture, which represented some Cr\$9 billion for the first 10 months of 1954 as compared with Cr\$3 billion in the same period of 1953.

As to prospects for 1955, the authorities were cautious in making a forecast. It had been reported that the 1955 coffee crop would be exceptionally good and that a high level of production should be expected in other crops.

The Brazilian authorities indicated that industrial production continued to increase in 1954, partly because of the previously mentioned increase in electric power in the Rio-Sao Paulo area and the protective effects arising from the high import rates associated with the auction system and the exchange shortage. On the whole the consumer goods industries have continued to expand while the heavier industries, such as cement and steel, have tended to level off during the latter part of 1954 because of a slowing down in the building industry. For the year as a whole, industrial production increased at a slightly reduced rate than in previous years. There was a decline in the third quarter of the year, attributable in part to the

increases in the minimum wage which went into effect in July, and to the political crisis associated with the change in the presidency on August 24.

Consumption of petroleum products increased steadily in 1953 and 1954. Imports of petroleum products were \$219 million in 1953 and increased somewhat in 1954 to an estimated \$243 million. Brazil has adopted recently a policy of building refineries and importing crude instead of finished products. The refining capacity was increased from 8,500 barrels per day in early 1954 to 55,000 barrels per day in late 1954 when the large Cubatao Refinery in Santos was inaugurated. Through the completion of other refineries the total refining capacity of Brazil is currently estimated at 90,000 barrels a day, or roughly 67% of present estimated national consumption. It is expected that beginning in 1955 the local refining of oil will annually, on a net basis, save around \$37 million of foreign exchange to Brazil. Furthermore, the refineries will allow Brazil to permit an expansion of the petro-chemical industry, the asphalt industry, etc. Instructions have been issued by SUMOC whereby Petrobras (the Brazilian Government Oil Corporation) is to be allocated any savings in foreign exchange. These funds would be used by Petrobras to carry on domestic exploratory drillings, and to expand the production and the refining of petroleum. A recent successful drilling in Nova Orinda (Amazonas) had increased hopes of larger domestic oil production, exploited by Petrobras. Reliable estimates indicate that in order to produce enough petroleum domestically to meet Brazilian demand, an investment of \$1 billion would be necessary, of which 70 to 80 per cent would have to be in foreign currency.

In discussing some of the structural aspects of the Brazilian economy, the Brazilian authorities pointed to the substantial increase that had taken

place in the last few years in the production of electric power. The shortage of power had been for many years one of the more serious impediments to the economic development of Brazil, which had led to reduced output of many factories. Recently, however, as a result of the studies of the Joint Brazil-United States Economic Development Commission, and financing extended by the IBRD, these bottlenecks were in the process of being overcome.

Building activity had significantly declined. This was attributed by the Brazilian representatives primarily to the more restrictive credit policy, particularly in the second half of 1954, and to the stricter rediscount policy, as construction paper was not accepted by the Rediscount Department of the Bank of Brazil. The real estate market also showed a tendency to weaken, particularly since the new credit measures became operative in October 1954. The total amount invested in real estate and mortgages in the Rio area amounted to around Cr\$4 billion in 1954, Cr\$45 million more than in 1953.

The Brazilian representatives indicated that no accurate data or estimates of employment and unemployment are available. There is only one index for employment, that for employment in the Federal District, and this showed a moderate decline in 1954. The Brazilian representatives said that it was their opinion that employment dropped sharply about the middle of 1954, and they believed that unemployment at mid-year was at the highest point in three years. However, there was a rebound in July, toward the end of 1954 unemployment was declining.

Concerning plans for dealing with bottlenecks, the authorities indicated that the only formal development plans, private or governmental, are those approved by the Bank for Economic Development. Some development projects

are carried on by the three levels of government, i.e. federal, state and municipal, within budgetary limits. The Brazilian representatives also said that there was significant expansion of private enterprises, partly with new funds but primarily with the ploughing-back of profits.

The staff then inquired in what ways the operation of the exchange system and the payments situation affected the level of economic activity in 1954. The Brazilian authorities indicated that industrial production had increased in 1954 partly because of more electric power in the Rio-Sao Paulo area and the protective effects of the high import rates in the auction system and the exchange shortage. On the whole the consumer goods industries had continued to expand while the heavier industries have tended to level off, for reasons mentioned above. The Brazilian representatives also indicated that the value and volume of imports in 1954 exceeded those of 1953 in both convertible and inconvertible currencies, particularly in the latter. Private dollar imports were progressively reduced in the second half of the year, but for the year as a whole total dollar imports exceeded those of 1953.

The Brazilian representatives added that, generally speaking, there had been no significant change in the composition of domestic output by industry, as a result of the working of the exchange system. However, certain minor export industries had received a stimulus in the higher export bonuses.

B. Monetary and Credit Developments

The Brazilian representatives stated that there had been a general acceleration of the inflationary trend during 1954. This had been stressed in public statements by former Minister of Finance Gudin. The newly appointed Minister of Finance also expressed his concern with the inflation problem and the need to continue anti-inflationary policies. This aggravation of the inflationary process was evidenced in the increase of general prices (an index that combines wholesale prices and the cost of living) of 23.6 per cent in 1954, as compared with 21.4 per cent in 1953 and 11.6 per cent in 1952. The money supply rose by 23 per cent in 1954 as compared with 21.4 per cent in 1953 and 11.6 per cent in 1952. The expansion of the money supply was primarily due to credit expansion of the Bank of Brazil, and of other banks. The credit expansion of the Bank of Brazil was motivated by three factors: a) assistance for the Federal Government, b) assistance to the State Governments, particularly Sao Paulo, and c) financing of the accumulation of coffee stocks as a result of the minimum price policy.

Prices were continuing to rise in early 1955, in spite of the anti-inflationary measures. They noted that the spiral set off by the increase in the minimum wage in 1954 had not yet worked itself out fully on the general price level. Other factors affecting the price level were the increases in export bonuses, which resulted in rising domestic agricultural prices.

The Brazilian representatives believed that the increase in the money supply in 1954 would bring great pressure to bear on prices in 1955. Another element that would affect prices was the decreasing level of private dollar imports, which had been progressively reduced from \$40 million a month earlier in 1954 to \$10 million a month beginning in November 1954. The Brazilian

representatives said that while they could not foresee a levelling-off of prices in 1955, they hoped to see a reduction in the rate of expansion. In any event, this was their objective for 1955.

The Fund staff representatives expressed grave concern over the possibilities of continued price rises in view of the continued expansion that had taken place in the money supply, the very low level of foreign exchange receipts and reserves and the gradual running down of inventories of imported raw materials and other goods. The staff inquired as to the effectiveness of the measures which had been adopted to control inflation and as to what new measures were contemplated.

The Brazilian authorities indicated that in the first half of 1954 comparatively little was done about inflation. However, in the latter part of 1954 firm monetary and credit policies had been successfully implemented. It was not possible to discontinue immediately large scale currency issues due to certain obligations already assumed by the Federal Government, but bank credit had been restricted. Part of the new currency issues had been retained as reserves by commercial banks. There were some indications that credit expansion by the Bank of Brazil had also been brought under control. Among the measures taken were: (1) Instruction 105 of SUMOC which established maximum limits on the amount of interest the commercial banks could pay on deposits, the new limits are now 3 per cent on sight deposits and 6 per cent on time deposits (1 year) and 7 per cent on savings deposits (18 months or more). The objective of this instruction was to curb the undesirable competition among the private banks for new deposits and to have the rediscount rate higher than the interest on deposits. One effect would be to reduce the administrative

expenditure of the commercial banks and to compensate for the increase in reserve requirements provided for by Instruction 108 of October 1954.

(2) SUMOC Instruction 106 of October 1954 revised the rediscount rate. The main increase in rediscount rates (different rates depending on the type of paper) was that for Duplicatas (the principal type of trade financing), which was raised from 6 to 8 per cent. There was considerable opposition to this increase. This placed the rate at a higher level than that of interest on deposits. There was also a tightening of rediscounting procedures (not included in the instruction) aiming to reduce the volume of rediscounts.

(3) Instruction 108 of October 1954 provided for an increase in reserves requirements. However, holdings of Treasury bills could be counted towards reserves to the extent of 50 per cent. The increase applied to all of a bank's deposits, sight and time, when the level of deposits exceeded the highest level of deposits reached at any time between January 1954 and the end of October 1954. The Brazilian representatives said that for Brazil this was an appropriate measure and was met with strong opposition by most commercial banks, especially the minor ones. The results had been excellent, and commercial bank credit had now levelled off as a result. The Bank of Brazil, however, still remained a problem. The commercial banks complained that the increases in reserves merely allowed the Bank of Brazil to increase its lending. But from January 1955 on, the Bank of Brazil began to reduce the level of its credit, especially through its Commercial Credit Department. 1/

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1/ However, Instruction 116 of SUMOC of May 6, 1955 cancels Instructions ~~106~~ and 108 of October, 1954.

It appeared to the Fund team that general central banking credit controls (increased rediscount rate, reduced rediscounts and increased reserve requirements) could not be applied effectively to the banking system as a whole. This was due to the traditional use of rediscounts as a regular source of funds, and the wide divergence in the reserve position of the banks, and the absence of a broad market for government bonds. The Brazilian representatives said that they tended to agree generally with this position. The staff felt that as long as loans were made at an interest rate of 10 to 12 per cent, a rediscount rate of 8 per cent would not be a deterrent. The Brazilian representatives agreed and said that ~~with~~ current interest rates on commercial bank loans were 10 to 20 per cent. It was therefore still very profitable to rediscount at 8 per cent. The usury law actually sets a limit of 12 per cent on bank loans, including all commissions, etc., but in practice some banks had been able to collect up to 18 per cent, or even more.

The Brazilian representatives said that the bank inspection of functions of SUMOC had proceeded satisfactorily during the last year. This indicates improved supervision of the commercial banking system. Fiscalizacao Bancaria (FIBAN) had continued to supervise foreign exchange transactions, as in the ~~past~~, but ~~with that exception~~ SUMOC now carried on all of the bank inspection functions.

The staff inquired about measures taken regarding the Government's indebtedness to the Bank of Brazil. The borrowing limit established by law is 20 per cent of estimated budget receipts, but this limit has been continuously exceeded.

As for the financing of commodity exports (Coffee Institute, Commission for the Financing of Production, etc.), and the inflationary significance of these operations, the Brazilian representatives said that

credit for coffee is extended in several ways: (1) The producers obtain loans from the Agriculture and Industry Department of the Bank of Brazil, in accordance with the minimum price law; (2) intermediaries, merchants and exporters obtain credit from commercial banks and from the Bank of Brazil's Commercial Department; and (3) the Coffee Institute purchases coffee and obtains the necessary funds from the Commercial Department of the Bank of Brazil. It was agreed by the Brazilian representatives that the minimum price policy on coffee had led to a sharp increase in the volume of credit, particularly from the Bank of Brazil.

In summarizing the discussions on monetary and credit developments, the staff representatives noted that monetary measures had been taken, beginning August 1954, and they appeared to be producing beneficial effects. Rediscounts to private banks had been reduced and there were also signs that the Bank of Brazil was being brought under control. It appeared to the staff, however, that the bank credit expansion had not yet been completely stopped. The staff encouraged the Brazilian authorities to maintain stricter control over this expansion, particularly that of the Bank of Brazil.

#### C. Public Finances

The Brazilian representatives indicated that the fiscal situation continued to deteriorate in 1954, although serious efforts were made beginning in August to correct the imbalance. The execution of the 1954 Federal Budget was fairly close to expectations. There was a deficit of Cr\$2.8 billion instead of a surplus of Cr\$0.9 billion, mostly as a result of increased expenditures to the extent of Cr\$4.2 billion. The Brazilian representatives said, however, on a cash basis and including extra-budgetary operations, the deficit was larger, i.e. Cr\$6.1 billion in 1954, as compared with Cr\$5.3 billion in 1953.

Government usually requires funds towards the end of the year, at a time when the Bank of Brazil has a seasonal decline in its cash position. Greater flexibility in the issuance of Treasury bills would facilitate the Government's fiscal operations. At present, the Government is issuing Treasury bills at the maximum limit of 6 per cent interest, and most of these are held by the commercial banks. They have been sold slightly below par value, with a yield of about 7 per cent. Otherwise, there is hardly a market for them. The banks hold them, since 50 per cent of required reserves may be held in notes.

The Brazilian representatives said further that no important changes had occurred in the Federal internal consolidated debt. In the absence of a market for long-term government securities, no financing of this kind has been undertaken in recent years. The total Federal internal long-term bonded indebtedness has been practically the same since 1948, i.e. Cr\$10.5 billion.

The question of profits or losses in Federal Government agencies was also considered. The Brazilian representatives said that the government-owned enterprises (Antarqui~~as~~), primarily the railroads, usually produced a loss. These losses amounted to Cr\$3.3 billion in 1954. The Federal budget actually included an appropriation of about Cr\$3 billion a year to help meet the traditional deficits of these enterprises. There were deficits over and above that amount and these were met by funds borrowed from the Bank of Brazil. It was expected that in 1955 the deficit would be Cr\$3 billion. Jms

The finances of the state governments continued to be a serious problem, especially since the deficits had to be met by inflationary financing. In 1954, the total net deficit of the state government budgets (including that of the Federal District) had been Cr\$4.5 billion, as compared with Cr\$5.4 billion in 1953. This reflected some improvement, but the situation still presented a

problem. The situation in the State of Sao Paulo had, to some extent, improved, but the budget deficit was still of serious proportions, accounting for the bulk of the total of deficits for all state governments (Cr\$3.8 billion in 1954). In answer to a query, the Brazilian representatives said that the deficit this year would probably be much larger than ~~the~~ the estimated deficit of Cr\$600 million.

On the whole, the fiscal sector thus remained a major inflationary factor. The staff impressed upon the authorities the need to persist in their efforts to balance the Federal Budget and the Antaragias and to strengthen the finances of some of the states.

The Brazilian representatives said that there were no subsidy <sup>program</sup> progress as such, but as said above there was a regular budgetary appropriation of some Cr\$3.0 billion a year, to assist government enterprises.

Except for coffee, there were no significant stocks of commodities accumulated at the present time. All of the buying of stocks was effected either by the Bank of Brazil directly (as in the case of cotton in 1952), or under the direction of the Commission for the Financing of Production, a Federal agency.

### 3. External Position

#### A. 1954 Balance of Payments

The Brazilian representatives presented a preliminary estimate of the balance of payments for 1954. They said that the balance of payments was characterized by a higher level of trade than in 1953, in each direction. Exports totalled the equivalent of US\$1.56 billion, as compared with US\$1.54 billion in 1953. There was a sharp decline in the volume of coffee exports,

but this was offset, to some extent, by higher prices, (See Part II, page \_\_\_) Exports of cotton, cacao, and other products increased. Imports, however, totalled the equivalent of US\$1.4 billion, as compared with US\$1.1 billion in 1953. The deficit on current account totalled some US\$280 million.

This deficit had been financed primarily by external loans, including loans from the Federal Reserve Bank of New York <sup>totaling \$160 million which was refinanced by</sup> the November 1954 loan of \$200 million from a group of U.S. commercial banks. (See Part II, page \_\_\_).

The Brazilian representatives said that market conditions for Brazil's principal export crops had undergone some great changes. The most significant of these was coffee. Prices rose sharply in the early part of 1954, to record levels, and then declined particularly after the depreciation of the coffee export exchange rate in August. There was an increase in the volume of exports in November, but another critical decline in the following months, December 1954, January and February 1955.

In general, the volume of coffee exports was affected by the operation of the domestic price support arrangements.

The Brazilian representatives indicated that in accordance with the minimum price law of June 3, 1954 for the marketing year 1954/55, the producer is assured financing of up to 80 per cent of the minimum price of Cr\$20.32 per pound, or approximately Cr\$2,000 per bag; this financing is provided by the Agricultural and Industrial Department of the Banco do Brasil. Exporters have at least three alternatives in handling their coffee: a) to sell their coffee abroad at the market price. (See Part II, 5 (2), page \_\_\_); b) to sell it to the Coffee Institute on the basis of the minimum price of Cr\$20.32 per pound <sup>1/</sup>;

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<sup>1/</sup> On April 28 the new Minister of Finance, in order to avoid the need for new currency issues, ordered a temporary halt in the purchases of coffee by the Brazilian Coffee Institute; the financing for producers, however, continues.

c) to carry their coffee under special credit facilities extended by the Bank of Brazil (special financing for exporters on the basis of 100 per cent of the value); under this system, it would appear that the Bank of Brazil agrees to take the coffee in repayment of the loan and the exporter absorbs the carrying charges; ~~xxx~~

The staff noted that with this system of financing the coffee for exporters on a 100 per cent basis, they could carry large inventories at relatively low cost and risk. They were then in a position to hold coffee off the market in expectation of a higher cruzeiro return resulting either from a depreciation of the rate or a rise in the dollar price. The staff inquired as to the attitude of the authorities in this respect.

The Brazilian representatives indicated that the principal objectives behind the coffee policy were: 1) to stabilize the market; and 2) to induce the exporter to ship in a normal manner. They added that the two separate depreciations of the export rate for coffee (August 1954 and February 1955) aimed at restoring the normal flow of coffee exports.

Practically all other export commodities moved in a satisfactory way. In the case of cotton, all of the production and remaining stocks had been sold; in fact, 1954 was one of the best cotton export years on record, so far as volume is concerned. Cocoa prices had been high and export receipts satisfactory, with expectations of a continued high level of exports this year. The cocoa situation had improved for Brazil because of the liquidation of West African stocks and no immediate prospects of increase in their area; stocks are also low in the consuming countries. In recent months, however, cocoa prices had declined. Other exports, including iron ores, carnauba wax, minerals, quartz, manganese, mate, tobacco, sugar, hides and skins and vegetable oils produced

\$234 million in 1953 and \$182 million in 1954. The outlook for increasing iron ore and manganese exports is favorable and might reach \$70-75 millions annually.

The next question dealt with the value, volume and composition of imports in 1954. The Brazilian representatives said that the composition of imports had remained generally unchanged. There had been a significant increase in imports of chemicals, raw materials and manufactures (mostly equipment). Luxuries had accounted for only 5 per cent of the value of imports, or at about the level of previous years. ~~(Over the long run.)~~ The share of foodstuffs in total imports had declined, while the share of manufactured goods had increased. At present, wheat was the only important food import. The increase in manufactured goods was accounted for by the growth of industry requiring equipment from abroad, and the growth and demand for durable consumer goods. The ~~relative~~ share of raw material imports had not declined.

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The rate of imports of petroleum products had been leveling off since 1953. After a rise of 20 per cent per year since 1947, such imports levelled off in 1953. In that year imports totalled about \$237 million, and \$248 million in 1954. Wheat imports reached 1.5 million metric tons, with a value of \$180 million in 1953, a 7 per cent increase over 1948. In 1954 the value of wheat imports decreased by 30 per cent, to \$127 million, partly due to lower prices and also to the fact that 150,000 tons had been purchased under the U.S.A. Surplus Program against cruzeiros to be used by the U.S. in buying some strategic materials. At one time, Brazil had hoped to become almost self-sufficient in wheat imports, but it is now realized that Brazil needs an outlet for its lumber in Argentina; its lumber can be traded primarily against wheat.

The Brazilian representatives said the ~~volume~~<sup>servicing</sup> of private capital, was less than the inflow of private capital. This does not take into consideration

the re-invested earnings of foreign capital in Brazil. If re-invested earnings were taken into account, then the inflow of capital would be very much greater than the outflow.

The principal characteristic of the balance of payments in U.S. dollars was the unusually large deficit of 1954. Exports in dollars totalled \$596 million, and imports \$844 million, the trade deficit being \$248 million. (See Part II, page\_\_ ).

From the actual record of purchases and sales of exchange, which naturally differed from the balance of payments figures, the payments deficit would appear to be larger than the trade deficit, and to amount to \$364 million, as per details given below: -

Brazil - Receipts and Expenditures in Convertible Currencies, 1954

(in millions of dollars)

<u>Receipts:</u>	<u>605</u>
Exports	600
Other receipts	5
<u>Payments:</u>	<u>969</u>
Petroleum imports	213
Imports of Gov't entities	61
Other imports	515
Services and capital items of public nature	116
Services and capital items of private nature	49
Others	5

The Brazilian representatives said that the balance of payments in inconvertible currencies, including sterling, was characterized by a reduction in the volume of exports, but due to higher prices, the value of exports of \$954 million had been well above 1953. Imports reached \$818 million in 1954. In terms of purchases and sales of exchange, the figures were the equivalent of \$968 million and \$948 million, respectively.

The Brazilian representatives indicated that in 1954 West Germany was Brazil's second most important trading partner. Exports had increased from \$167 million in 1953 to \$186 million in 1954; imports from \$111 million to \$160 million. The payment agreements account balance in favor of Germany had been brought down from \$77 million on December 12, 1953 to \$33.4 million on March 21, 1955.

In trade with the United Kingdom, Brazil's exports totalled \$74 million (\$87 million in 1953). The drop in imports-excluding petroleum - had been particularly sharp, from \$51 million in 1953 to \$18 million in 1954. (See Part II, 1 (5), Page 9). This drop is partly explained by the fact that under the September 1953 Agreement, Brazil undertook to set aside E 6 *million* (\$17 million) annually to repay the commercial arrears, and the U.K. agreed to authorize payments in sterling up to E 15 million (\$42 millions) annually for petroleum (which are not included in the above import figures). Furthermore, some extraordinary exports (amounting to E 8.3 *million* (\$23.2 millions) of Brazilian cotton had been set aside to speed up the repayment of arrears. Since September 30, 1953 and up to March 25, 1955 the sterling arrears had been brought down to E 35.9 million). Very little sterling had been offered at auction for regular commercial imports.

A similar situation developed with Belgium. Exports reached \$22 million, and imports only \$4 million in 1954; the difference had permitted a complete repayment of commercial arrears with that country. Exports to Holland were \$45 million, and imports \$34 million in 1954; most exchange in trade with that country had been used to meet official payments (including arrears) and government imports. Only modest amounts of Dutch Agreement Dollars had been auctioned for commercial imports.

The Brazilian authorities commented that the reduction of "commercial imports" was affected not only by Brazil's efforts to repay arrears, but also by the fact that Brazilian goods are re-exported by these countries to dollar and other markets. Specific reference was also made to the extension of supplier credits by some European countries. It was known that in the past Brazil had diverted its imports to countries which had provided Brazil with such credits.

The 1954 balance of payments had been in deficit. Brazil had recourse to very substantial external financing. Repayments in the next few years will be heavy with a peak being reached in 1960. The bulk of the gold reserves are pledged for loans to U.S. banks. The reserves position was thus weak. It will take some time before Brazil's external reserves can be increased to a satisfactory level. Trade with some non-dollar areas had increased in both directions, and this had been achieved without an intensification of bilateralism. The policy of the Brazilian authorities on external payments had been to keep the level of payments down to an amount compatible with commitments and with what is considered a satisfactory level of economic activity. The composition of imports was changed in the latter part of 1954 when less exchange was made available for less essential imports. The staff commented favorably on the fact that in all government circles there was a conscious realization that exports had to be promoted, since in the end the Brazilian economy would experience serious maladjustments if restrictions had to be intensified.

B. Balance of Payments Outlook for 1955

The Brazilian representatives said that the balance of payments outlook for 1955 was uncertain. In the first quarter, exports of coffee had been at a critically low level. Only the most tentative estimates could be made of the possible level of exports. For inconvertible currencies, it was expected that a high level would be maintained and that any margins would be held within swing limits. The prospects were for exports against dollars appeared to be less encouraging. In April 1955, SUMOC had prepared a balance of payments estimate in convertible currencies for 1955, for the use of the Fund group, revising the earlier exchange budget approved in December, 1954.

(Millions of dollars)

<u>Receipts</u>		<u>864</u>
Exports:		520
Coffee	360	
Cacao	40	
Cotton	6	
Other	154	
Services		6
Borrowing		271
Balances on Dec. 31/54		27
<u>Payments</u>		<u>864</u>
Imports:		588
Petroleum	198	
Wheat	14	
Government	49	
Other	297	
Services		101
Capital service		205

In the revised estimates, coffee exports in convertible currencies were reduced to 6 million bags, whereas it could have been expected that Brazil could export 10 million bags. In the first quarter of 1955 only 0.8 million bags had been exported to convertible currency countries, as compared with an annual average of 2.5 million bags per a quarter (See Part II, 7, (1), page 21).

The present estimate was based on the data for exports in the first quarter of this year, which had not reached the \$60 million level projected last December. Actually, total dollar export receipts had been \$31 million in January, \$25 million in February, and \$45 million in March. They also noted that while the current spot price for Brazilian coffee in New York was approximately 58 cents a pound (April 1955 prices), March '56 futures were down to 39 cents.

The Brazilian representatives explained that the contemplated \$271 million of borrowing included the \$75 million already obtained last February from the Export-Import Bank, the use of private lines of credit from foreign banks, swap operations, and other financing. (See Table F, Part II, 7, (1), p. ). In fact, they had not been engaging in swap operations to the fullest extent possible. Even with this financing, the Brazilian representatives explained that their payments position in convertible currencies would be extremely critical in the months ahead. It was not possible to cut further the present "austerity level of payments."

C. Reserves position and prospects

Since the beginning of 1954 the reserve position had deteriorated. There is an overdrawn position in dollars with a large amount of short- and medium-term commitments coming up. The bulk of the gold reserves are pledged for the dollar financing undertaken last year. In non-dollar currencies the position has improved. A number of important debit balances have been cleared off or reduced substantially, and there are no remaining debts of any significance.

The Brazilian representatives stressed that despite the exchange shortage, the policy makers were strongly opposed to selling exchange forward beyond the usual term of 120 days. In fact, they would have preferred the dollar

exchange to have been sold spot, as, in their opinion, it was always dangerous to sell exchange which one did not have.

Unpledged gold amounted to only \$108 million. There were negative balances in both dollar and non-dollar currencies. Commercial arrears, however, which were a serious problem two years ago, had been substantially reduced to the equivalent of \$114 million at the end of 1954, of which \$30.1 million were still outstanding in convertible currencies.

The position in U.S. dollars was very tight; bankers' balances had been drawn down from \$38 million at the end of 1954 to \$7.5 million at the end of February 1955. There were, however, some \$50 million to \$60 million of unsecured lines of credit which Brazil might be able to use with private U.S. commercial banks. Some \$40 million to \$50 million had already been drawn down.

The external bonded debt had, over the years, been significantly reduced and was now down to modest proportions. The loans contracted in recent years, mostly dollar medium-term loans, had now increased to very significant proportions. The debt service on these loans represented a substantial proportion of dollar earnings. Service payments (interest and amortization) on these dollar obligations would increase gradually from \$110 million in 1955 to \$233 million in 1960, and would drop sharply to \$61 million in 1961 and \$42 million in 1962.

The balance of payments estimate for 1955 includes a very substantial deficit, even with the limitation of dollar auctions to \$10 million a month and with the expected borrowing abroad. The estimate of coffee receipts at \$360 million appeared to the staff to be somewhat on the cautious side. These receipts depend to some extent on Brazilian coffee policies. SUMOC

Instruction 99 was a recognition that the coffee minimum price had been set too high. A sharp cut in imports might unduly affect the level of economic activity. The authorities intend to try to ease the repayment schedule in the next few years by some funding operations.

In assuming office, the New Minister of Finance referred to the need to stimulate production and to continue anti-inflationary efforts. The Minister added that "Exchange Confiscation"<sup>1/</sup> must cease (by which is meant export proceeds being negotiated on the basis of the official rate plus certain amounts for all goods except coffee instead of being sold in the free market). This "Confiscation" was unfair to producers and prevented Brazil's products entering into proper competition with those of other countries. While acknowledging this, the Minister recognized, however, the need to act cautiously, given present conditions in the coffee market.<sup>2/</sup>

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<sup>1/</sup> The term "Exchange Confiscation" had been used by the new Minister in two articles in a Brazilian paper as early as July 1954; on that occasion Dr. Whitaker had labeled the spread between export and import rates as "unjust, anti-economic and unconstitutional." O Jornal, Rio, April 10, 1955.

<sup>2/</sup> In agreement with this policy of readjusting export rates and by a Resolution of the Council of SUMOC, Brazil shifted, on May 6, cotton from Category II (37.0 cruzeiros per dollar) to Category III (43.0 cruzeiros per dollar).

#### 4. The Restrictive System

The discussions regarding the restrictive system centered around (1) the changes in effective export rates and other practices applicable to exports; (2) the changes in the auction system, in effective import rates and other import practices, including the 10 per cent remittance tax; (3) trade and payments agreement and other exchange questions; and (4) some implications for the exchange system involved in Law 2410 of January 29, 1955. As indicated, in the general introduction, the changes in the Brazilian Government during the latter part of the staff group stay in Rio de Janeiro made it possible to have discussions only on the policies pursued in the past.

##### Export rates and other export practices

The staff representatives reviewed in detail with the Brazilian authorities the various changes introduced in the effective export rates since the introduction of the present exchange system (see Part II, pp.       ). During this period there have been three major changes in the effective export rates, characterized as follows. In August 1954 a link with the free market was established, which introduced broken cross rates for all currencies with the following exceptions: the Argentine agreement dollar was granted the same treatment as the U.S. dollar, pursuant to an agreement with Argentina; and orderly cross rates were maintained among payment agreement currencies.<sup>1/</sup> The relative position of the various currencies was determined by the level of the exchange rates in the free market, since 20 per cent of all exchange receipts was computed at the free market rate.

The change introduced in November 1954, whereby fixed bonuses were established for coffee export receipts, resulted in a practical freezing of the

1/ The payment agreement dollars for payments to the following countries were offered for auction during the period in question: Argentina, Austria, Bolivia, Chile, Czechoslovakia, Finland, Germany, Greece, Hungary, Iceland, Italy, Japan, The Netherlands, Norway, Poland, Portugal, Spain, Turkey, and Uruguay.

relative positions of the various currencies which prevailed immediately before, under the linking arrangements with the free market. This is because the bonuses were established at such levels as to maintain approximately the same effective export rates for each currency. The broken cross rates were thus maintained, although on a fixed basis, for coffee export proceeds; except that orderly cross rates were established for the pound sterling and the U.S. dollar, and the Argentine agreement dollar was given the same treatment as the other agreement dollars. The broken cross rates on a fluctuating basis, resulting from the linking with the free market established in August 1954, were maintained for all exchange proceeds deriving from all exports other than coffee.

This situation was modified in January 1955, when three major changes were introduced: (1) the fluctuating feature of the effective export rates for exchange proceeds from exports other than coffee was eliminated by the establishment of fixed bonuses for all commodities; (2) the categories of commodities were increased from two to four, with different export bonuses for each category; and (3) orderly cross rates were maintained for convertible currencies and pound sterling and re-established among all other currencies. The same percentage difference in the effective exchange rates established in November 1954 for coffee export proceeds between convertible currencies and pound sterling on the one hand and all other currencies on the other was extended to all commodities. Under this arrangement the exchange rates (in terms of cruzeiros for unit of foreign currency) applicable to currencies other than convertible currencies and the pound sterling, were lower than the exchange rates applicable to the latter currencies by about 4.06 per cent.

In February 1955 coffee export proceeds were granted the same bonuses as those of Category II exports. All in all, those changes signify a step by step devaluation of the cruzeiro on a selective basis.

The staff representatives asked the Brazilian authorities what had been the general policies behind those changes and the specific reasons for each of them. More particularly, they asked whether in gradually raising the levels of effective export rates the Brazilian authorities had been pursuing an export promotion program. The Brazilian authorities answered that the main objective was to overcome the impediments to the "normal" flow of exports and export receipts. These impediments were of two different types. In the case of coffee, it had been represented by the working of the price support mechanism which at times had resulted in the exporter preferring to sell to the Coffee Institute rather than to export. In the case of most other products, especially minor export products, the impediment has been the gradual increase in the money costs of production resulting from domestic inflation. In fixing the level of export bonuses for the various groups of export products, especially minor products, the objective had been to cover the increased money costs of production plus a reasonable profit. No policy of competitive depreciation was involved. Likewise, in the case of coffee, the choice of the levels of the effective rates established during the period in question was determined by the objective of avoiding needless reductions in export receipts (resulting from the price support mechanism) (see p. ), and not by a competitive depreciation policy. Following the adjustments in effective export rates for minor exports, there had been increases in exchange receipts from those exports, iron ore being an example.

A plan had been put forward by the Director of the Foreign Trade Department of the Bank of Brazil (CACEX) aiming at giving export incentives on a selective basis to minor exports. The main considerations behind this plan were that the same commodity was produced at different money costs, depending on the area of Brazil in which it is produced. A system of differential

bonuses would take into account these differences in conditions of production and avoid excess profits of certain producers or exporters. In discussing this plan, the Brazilian authorities said that it had some merits, but that, for all practical purposes, it was unworkable. The staff representatives pointed out, in addition, that the plan would result in further proliferation of effective export rates, as well as being undesirable from the economic point of view. The Brazilian authorities concurred in the staff representatives' impression that they had become conscious of the need to expand exports in order to meet the growing demand for foreign exchange. The Brazilian authorities pointed out that mere increases in export rates do not necessarily result in larger volumes of exports since the lack of adequate transportation and other facilities represent the hardest obstacles. What is necessary is a joint program of improvements of transportation, storage, and similar facilities, and of remunerative export rates. Some progress on an ad hoc basis has been made by CACEX in that direction.

In addition to the policies with regard to the levels of export rates, the staff representatives discussed with the Brazilian authorities the three other major aspects of the export rate changes: (1) the return to fixed bonuses, after the experience with fluctuating rates resulting from the linking with the free market; (2) the increase of the number of categories of commodities and its implications; and (3) the establishment of differential treatment between currencies. Two reasons were given by the Brazilian authorities for the return to the fixed bonuses system. One reason applied particularly to coffee, and had motivated the November 1954 change. The gradual depreciation of the effective mixed export rate, resulting from the linking with the free market, had introduced a new speculative element in the coffee trade which had adverse results on coffee export proceeds. Since the free market rate continued its upward trend, with fluctuations,

exporters of coffee tended to withhold their coffee, hoping for higher cruzeiro proceeds from their exchange. It was necessary, therefore, to eliminate this source of speculation. The other reason was that the Brazilian authorities do not consider that the exchange rates which prevail in the free market, being affected as they are mostly by financial transactions, are of great economic significance. They decided, therefore, to avoid that effective export rates be unduly influenced by fluctuations in the free market rates.

As to the establishment of a differential treatment for the various currencies, the staff representatives pointed out that some Executive Directors have expressed their concern about this discriminatory exchange practice. They added that insofar as they agree with the Brazilian authorities that the free market rates do not have great economic significance, a discriminatory treatment based on the free market rates can lead to trade distortions. They said that it was to be hoped that the practice in question be reconsidered. The Brazilian authorities gave two main reasons for it. They repeated that, generally speaking, the different effective rates reflected the different evaluations of the various currencies in the market (see Part II, pp. ). In the case of the preferential treatment given to the pound sterling over some other nonconvertible currencies which are considered equally hard in the international market (such as the Belgian franc), the Brazilian authorities stated that those other currencies were less in demand in Brazil. In addition, exchange receipts in pounds sterling could be used to buy petroleum products, thus permitting dollar savings, and also for payments to transferable area countries.

With regard to the increase in the number of categories of exports from two to four, and the granting of higher bonuses to Categories III and IV, the Brazilian authorities stated that this was done to take into account the increases in costs of production of minor exports. They added, however, that they would prefer to have only two categories, at most, three. The staff representatives inquired about the implication of granting certain products bonuses different from those granted to the domestic raw materials from which they are derived, such as cacao butter and cacao. The Brazilian representatives said that this was a special case. Because of certain technological factors of the production processes applied abroad to obtain cacao butter, the foreign price of this product was such that approximately the same amount of foreign exchange was obtained in Brazil from exports of cacao in beans as from exports of cacao butter, on a comparable quantity basis. Since, however, the processing of cacao is a costly operation, it has been felt that the Brazilian producers should be given a more favorable exchange rate to cover those costs. It was agreed, therefore, that the whole question amounts to the desirability of maintaining the cacao butter industry. In this respect, it was indicated that it was advisable to keep such an industry in operation to dispose of temporary surpluses of cacao which could be stored only with difficulty.

With regard to the export side of the exchange system, the staff representatives noted that the Bank of Brazil had gradually relaxed the prescription of currency with regard to payments in pounds sterling. Exports against payment in sterling are now authorized to any country except convertible currency countries.

The staff representatives also raised with the authorities the question of re-exports of Brazilian products by other countries. The Brazilian

authorities supplied the staff representatives with the information, available to them, of the volume of such transactions. They considered them as harmful to Brazil, especially in cases where a loss of dollar exchange was involved. The Brazilian representatives said that they had been unable to stop the transactions in question.

The auction system, import surcharges, and other practices

The staff representatives reviewed with the Brazilian authorities the working of the auction system during 1954, the changes introduced in the various features of the system, and other import practices. The Brazilian authorities supplied the staff representatives with data concerning the amounts of each currency offered for auction, the prevailing agios, and other relevant data. On the whole, the system had been adapted to the changes in exchange availabilities which were experienced in 1954. This involved drastic reductions in the amounts of U.S. dollars and some other currencies offered for auction during the second part of the year, as well as a readjustment of the percentages of exchange allocated to each import category in favor of the imports which are considered as more essential.

The staff representatives discussed with the Brazilian representatives the reasons behind the introduction of special auctions, especially those for materials to be used in agriculture, and certain commodity reclassifications which had been carried out in the past. (See Part II, pp.        and p.    .)

The Brazilian representatives indicated that for economic and political reasons it had been necessary to introduce the special auctions for materials to be used in agriculture. From an economic point of view, it was felt necessary to grant a certain protection to importers of such materials by sheltering them from the competition of other bidders for exchange. The price which people are in the position to pay for those materials is relatively low,

and the importers of them would be outbid by other importers. From a political point of view, it was felt that it was necessary to compensate the coffee producers for the comparatively low exchange rate for their exports by allowing relatively low prices for such materials as insecticides, and fertilizers, which they use. The staff representatives noted that this practice represented a further limitation of the principle of the cost restriction on which the auction system is supposed to be based; that it produced an additional proliferation of effective rates and may lead to pressures from other groups of importers. In fact, the Brazilian authorities had already been under pressure from other importers who were seeking a preferential treatment in the form of separated auctions. The staff representatives noted that the Brazilian authorities had resisted such additional pressures so far, and urged them to continue to do so.

Other special auctions had been held occasionally on an ad hoc basis, either for special circumstances (such as the importation of dried fruits for Christmas goods) or to dispose of surpluses of certain currencies which could not otherwise be used.

Since the introduction of the auction system the minimum bids have been doubled and fixed surcharges on certain import payments and other payments had been increased in similar proportions. The Brazilian authorities said that it had been necessary to introduce those changes to prevent cruzeiro losses from the operation of the exchange system. The staff representatives, noted, however, that in the case of the minimum bids for petroleum products the Brazilian authorities appear to have intended to achieve also the objective of bringing the price of petroleum products more in line with other domestic prices. The staff representatives added that this was a commendable objective.

The staff representatives noted that the element of protection was still present in the commodity classification of imports and seemed to be behind some of the adjustments made in it. They also noted that the introduction of special regulations for imports without exchange cover did not represent a break in the principle of severe scrutiny with regard to such imports, which had been followed in the past.

The question of the use of the exchange system for revenues purposes was also discussed. The Brazilian representatives indicated that as a rule they intended to obtain, through the agios and surcharges, amounts in cruzeiros sufficient to cover the cost of exchange. It was noted that since November 1954 the exchange system had been producing a loss (see Table V on p. of Part II). Formerly, one of the main uses for which exchange profits were intended was the financing of agricultural projects. Now, the financing of these projects would have to be done in other ways. In connection with this question the staff representatives noted that the only link between the system of effective export and import rates was the local currency account; although, as noted earlier, the Brazilian authorities have shown awareness of the need for export promotion of which the exchange policy is a part.

The staff representatives raised the question of the recent increase in the remittance tax from 8 to 10 per cent in order to increase contribution to the Federal Electrification Fund (see Part II, p. ). The Brazilian authorities recognized that this was not a good way of getting revenue and that it was not in accordance with the Fund objectives. They could, however, not say what the prospects were for modifying or eliminating this tax.

#### Trade and payment agreements and other trade questions.

The Brazilian representatives said that bilateral trade and payment agreements as well as some aspects of them were an inheritance of the

depression of the early 1930's. Even in the postwar period, however, Brazil was interested in such agreements for two main reasons: to secure commodities in scarce supply in the world economy and to help export minor export products. These reasons do not prevail any longer, after the changes which have occurred in the world economy during the past years and the adjustments in Brazil's export rates. The Brazilian representatives said that, to some extent, the agreements were inoperative because partner countries purchased their imports from Brazil on a price basis. Moreover, since the introduction of the auction system the Brazilian authorities had permitted the exchange offered weekly for auction to be used freely for the importation of any commodity from partner countries, regardless of the trade lists and the quota established for such lists. The Brazilian representatives also indicated that the present policy was to work toward a multilateralization of payments and toward doing away with bilateral agreements as much as possible. The Brazilian representatives felt that coffee usually moves by itself. Many agreements did not help other exports. They also noted that in some cases the exports, which are being helped in this way, may produce exchange availabilities which, as in the case of Spain, can be used only to import luxury goods. The staff representatives noted the intention of the Brazilian authorities to do away with bilateralism as circumstances permit.

In connection with the difficulties in disposing of certain payment agreement currencies, the staff representatives inquired about the practice of permitting the use of such currencies to effect payments for imports from different countries. The Brazilian representatives said that such payments had been authorized only in the case of imports of sulphur, for the payment of which Finnish agreement dollars were used, and in the case of imports of copper, for the payment of which other currencies were authorized.

The staff representatives noted that the Brazilian authorities had continued to apply the policy of not intervening in the free market.

In connection with the changes in exchange practices, the staff representatives stressed the importance of the prior consultation procedure as established by the Fund rules. Specific reference was made to the need for prior consultation in case the Brazilian Government intended to use the authority provided for in Law 2410. The staff representatives also indicated that when the Fund is consulted in advance on proposed changes in the exchange system, adequate time should be given.

Some aspects of the exchange system involved in Law 2410

The possibility of utilizing the facility afforded by Law 2410 and thus shifting imports to the free market (see Part II, pp. ) was discussed. This step would, under certain circumstances, result in a reduction of the number of effective import rates. The staff representatives felt that there might be serious dangers in such a step at present. Apart from the fact that the technicalities have not yet been elaborated, the system appeared to involve an intervention of the Bank of Brazil in the free market and the creation of a fund of exchange to regulate it. They said that should the composition of imports be effected in such a way as to result in a significantly larger proportion of luxury imports, the Brazilian authorities would probably find it necessary to introduce some prohibitions and perhaps quantitative limitations. They also considered that on the export side coffee exports and export proceeds might be seriously affected.

The staff representatives, therefore, felt that should Brazil intend to use Law 2410, the Fund had to be consulted.

#### IV. Recommendations

The staff suggests the following draft decision for the consideration of the Executive Board:

1. The Government of Brazil has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. Inflationary pressures, stemming mainly from credit expansion and fiscal deficits, financed primarily by credits from the Bank of Brazil, continued during 1954 and the first part of 1955. Money supply increased at ~~a faster~~ <sup>an increasingly rapid</sup> rate during the first three quarters of 1954, and remained at a high level during the last quarter. In the latter half of 1954, measures were taken to curtail bank credit. These were followed by attempts to reduce the fiscal deficit by limiting government expenditures and by increasing revenues. A significant increase in budget deficit is expected in 1955. Lately, some credit restrictions have been relaxed.

3. Brazil's overall balance of payments position worsened in 1954, the deterioration registered in the dollar sector being partially offset by an improvement in the non-dollar position. Although overall exchange receipts were slightly better than in 1953, in regard to dollars there was an unusually large deficit. Expectations of large dollar receipts for the second part of 1954 led to heavy payments commitments being undertaken during the first half of the year. These expectations did not materialize, partly because coffee export receipts, which play the major part in the dollar accounts, were affected by a number of factors, including a fall in the external demand and prices, speculative activities in the market, and the steps then taken by Brazil to maintain

*In addition, Brazil lost dollar receipts because some of its coffee exports were reaching dollar markets via other countries*

the incomes of domestic producers. *had additional difficulties in closing* Brazil could not close the resulting dollar payments gap because of the existence of rigid items in dollar payments such as petroleum imports and government requirements, including debt services. The deterioration during the latter part of 1954 in its balance of payments, particularly in dollars, led to a reduction of the amounts of foreign exchange offered for auction. As a result, by the first part of 1955, imports had been largely reduced, ~~but~~ dollar receipts continue to be low. International reserves have declined, and Brazil had to resort to additional external borrowing in U.S. dollars, resulting in an aggravation of the burden of servicing the dollar debt. Past arrears in dollars and in inconvertible currencies have been reduced or liquidated.

4. The domestic inflation and payments difficulties have led to periodic revisions of the effective import and export rates, within the framework of the exchange system introduced in October 1953. Some import commodities have been given a preferential treatment through the use of special auctions. Minimum bids for exchange auctions and fixed surcharges for specified transactions have been increased during 1954 and 1955. The remittance tax on most foreign payments has been increased from 8 to 10 per cent. Effective export rates have been gradually increased for all commodities on a selective basis. A new discriminatory feature has been introduced in the system of export rates by the introduction of fixed export bonuses for convertible currencies and sterling and somewhat lower bonuses for other currencies.

5. Any fundamental reform of the Brazilian exchange system depends on achieving domestic stability. The Fund urges the intensification of efforts to curtail credit expansion and to reduce the fiscal deficit as a prerequisite to a strengthening of the external payments position.

Moreover, it would be advisable for Brazil to <sup>purse</sup> ~~take~~ domestic measures which would facilitate the normal flow of exports and the development of the country's resources. However, even before domestic stability is fully achieved, some simplification of the present system would seem to be feasible. The Fund does not object to the continuation of Brazil's multiple currency practices on a temporary basis. <sup>but</sup> Brazil should consider the possible reduction of the number of its present export and import rates, and ~~it~~ reconsider the need for the maintenance of the discriminatory features in its exchange system.

6. In concluding the 1954 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Brazil.

INTERNATIONAL MONETARY FUND

BRASIL

PART II

Background Material for 1954 Consultations

Prepared by Western Hemisphere Department  
and Exchange Restrictions Department

May , 1955

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INTERNATIONAL MONETARY FUND

BRAZIL

PART II

Background Material for 1954 Consultations

Prepared by Western Hemisphere Department  
and Exchange Restrictions Department

May 11, 1955

Summary

1. Economic developments

General economic activity was maintained during 1954 at a level higher than in 1953. The available indices of the volume of steel production, electric power output, and production in the textile industry, as well as the index of total industrial production, all indicate that the volume of production was maintained at levels moderately in excess of those of 1953, although the rate of increase was less than in previous years.

(1) External payments position

During 1954 Brazil met with serious payments difficulties. Imports continued at higher levels than in 1953, on the one hand, and there was a sharp reduction in the volume of coffee exports which more than offset the higher coffee prices, compared with 1953. The reduction in coffee exports particularly affected shipments to the dollar area and a serious imbalance resulted, requiring extraordinary external dollar financing. Trade with Europe increased in both directions, coffee exports not being as important as in the dollar sector and there having been a significant increase in exports of cotton and other products. The trade data available indicate that there was a substantial reduction in Brazilian dollar exports, compared with 1953, and a substantial increase in imports. The dollar deficit was met in the first instance by an extraordinary one-year gold collateral loan of \$160 million from the New York Federal Reserve Bank, which was refinanced in November 1954 by a five-year gold collateral loan of \$200 million from a group of U.S. commercial banks, the proceeds of this loan being applied to the monthly maturities of the \$160 million loan from the New York Federal Reserve Bank as they become due in 1955.

Coffee prices were high at the beginning of 1954, but later declined. The price of coffee rose to over 90 cents a pound in April 1954, on

expectations that the July 1953 frost in Brazil had seriously reduced production. Later reports indicated that the damage had been overestimated, and prices began to decline. At this juncture, June 1954, the Brazilian authorities established a minimum price of 87 cents a pound, which at the export rate then in effect (Cr\$23.36 per dollar) resulted in a cruzeiro minimum of Cr\$20.32 per pound. The cruzeiro minimum was to have been primarily for purposes of local financing, but to the extent that the Coffee Institute was prepared to purchase coffee on the basis of the minimum, it became in effect a minimum export price. With dwindling coffee exports and dollar receipts, the authorities twice lowered the effective minimum by a depreciation of the coffee export rate, first in August 1954, and again in February 1955. These depreciations of the exchange rate resulted in the lowering of the dollar equivalent of the cruzeiro minimum, allowing the Brazilian exporters to sell at lower dollar prices while protecting their cruzeiro receipts. Both of these depreciations of the export rate and the consequent reduction of the effective minimum export price were followed by sharp breaks in the price of coffee, due to bearish influences stemming from expectations of larger supplies in the marketing year 1955-56, without significant increases in the volume of coffee exports. Dollar exports in the first quarter of 1955 were below expectations. On the other hand, coffee inventories in the United States are reported to have been reduced to a level of 2 million bags by April 1955, in comparison with a normal level of 3 million bags. It is reported that roastings have exceeded imports since year-end, further reducing inventories. An increase in consumption can be expected from the recent reductions in retail prices. More recently, the Brazilian authorities have ordered the Coffee Institute to cease purchasing coffee. This may be a step in the direction of eliminating the effective export minimum. While U.S. importers may now increase purchases, they may be held to a minimum, since expectations seem to be for lower prices; the price of spot coffee is currently (May 9, 1955) about 55 cents a pound (Santos 4's), whereas March 1956 futures are approximately 39 cents a pound.

The dollar exchange budget prepared in December 1955 was predicated on total dollar receipts of \$60 million a month, which at that time was considered a conservative estimate. However, reported dollar earnings for January, February, and March 1955 were at the critically reduced levels of \$31 million, \$25 million, and \$45 million, respectively. This reflects the reduced volume of coffee exports. The bulk of dollar receipts will be necessary for essential payments, including imports of petroleum products and other essentials, and invisible payments, of which a large proportion are service payments on the now substantial medium-term dollar debt. Of Brazil's total external contractual obligations, estimated at \$1.4 billion, approximately three quarters is dollar debt and the bulk of it is medium-term. The external reserves position is now at low levels. Of Brazil's gold holdings of \$322 million, some \$200 million is pledged under the loan from the U.S. commercial banks. Available dollar balances are reportedly low, estimated at between \$50 million and \$60 million, including the unused lines of short-term unsecured credit available with U.S. commercial banks. The Eximbank approved a loan of \$75 million in February 1955. These funds will enable Brazil to meet its essential imports and contractual services in the short run. The low level of dollar reserves, the marked change in the world

coffee situation with expectations of larger supplies, and the downward trend in coffee prices, all make for a difficult dollar problem in the short run. In May or June a minimum price will be established for the 1955-56 marketing year, in accordance with existing basic legislation.

The general payments and reserves position in other currencies, including sterling, is more favorable. The two principal short-term debts, the sterling commercial arrears and the West German payment agreement dollar debit, have been substantially reduced; the debts to Belgium and the Scandinavian countries have been paid off or substantially reduced. It would appear that the Bank of Brazil has followed a strict policy of keeping auctions of these currencies within earnings and, in the case of exports to the United Kingdom and West Germany, substantial amounts of export receipts have been applied to debt repayment.

It is generally recognized that very important exchange economies, particularly in the dollar sector, will result from the development of Brazil's petroleum resources. Brazil has lately concentrated on developing refining capacity. Most crude petroleum must be imported, but Brazil is now doing a very substantial part of its own refining and economies are being achieved in this way.

## (2) Internal position

The monetary and credit situation was less favorable in 1954. For the year as a whole, the money supply has increased by 22 per cent, the largest increase since 1950. The increase in 1953 was 19 per cent. Wholesale prices increased some 31 per cent in 1954. The cost of living rose 17 per cent during 1954, compared with an increase of 16 per cent in 1953. There was a particularly sharp increase in total banks loans and investments of some Cr\$46 billion, or per cent, compared with some 23 per cent for 1953. Most of the increase, Cr\$29.4 billion, or 65 per cent, was accounted for by the Bank of Brazil and was mainly accounted for by loans to the Government and government agencies. The necessary resources for this record credit expansion were made available from the earnings from the exchange system and through rediscounts, the Bank of Brazil accounting for the bulk of this expansion. Total rediscounts had increased from Cr\$14.4 billion at the end of 1953 to Cr\$20.7 billion in August 1954, at the time Dr. Gudim became Minister of Finance; by December 1954 rediscounts increased to Cr\$26.5 billion. Resources were available from the exchange system, but during the period following September 1954 the exchange system produced cruzeiro losses in some months. The bonuses paid to exporters were increased, while on the import side the minimum auction bids or premiums were increased. It appears that the Government had increasing difficulty in shifting essential imports to higher effective import exchange rates. Important credit control measures were undertaken by Dr. Gudim, the former Minister of Finance, which included stricter scrutiny of rediscounts, increases in rediscount rates, and increases in reserve requirements. The latter were very significant and appear to have had some effect in restraining the use of commercial bank credit. To some extent these credit control policies have been inhibited by the special character of the Bank of Brazil and the scope of its operations. It is primarily owned and controlled by the Federal Government. It is called upon

to meet the credit needs of all three levels of government as well as those of business and individuals.

(3) Fiscal position

The fiscal situation was less favorable in 1954 than in 1953. The over-all federal deficit for 1954 is now reported to have been Cr\$7 billion compared with Cr\$2.9 billion in 1953. The present Administration has recommended a number of tax modifications and tax increases which were not approved by the Congress. The latter finally approved a budget for 1955 with budgetary receipts and expenditures at Cr\$56.7 billion and Cr\$53.8 billion, respectively, and with a deficit of some Cr\$3 billion. Due to a number of other items, such as the expected deficit of the autonomous agencies and the Christmas bonus to be paid to government workers, Dr. Gudin had estimated that there would be a deficit of some Cr\$15 billion in 1955. In an attempt to achieve equilibrium in the Federal Government's accounts, before Dr. Gudin's resignation the Administration was attempting to implement a plan whereby only 70 per cent of approved budgetary appropriations would actually be spent. It was reported, however, that such a reduction might seriously impair essential government services. It is not known what the attitude of the new Minister to these measures will be. The authorities had also asked the Congress for an additional corporate tax on profits exceeding 20 per cent of invested capital.

(4) Prospects

The prospects for 1955 will depend, to a considerable degree, on the developments in the coffee situation. To some extent, Brazil's coffee policy will be affected by the policies of the other producing countries which have now also established export minimum prices. There have also been reports of possible international action on coffee, including the Latin American coffee-producing countries and the United States, stemming from the Meeting of Finance Ministers in Rio de Janeiro in November 1954; there was also a recent meeting of producer countries in Puerto Rico. There are indications that the present Administration in Brazil is seriously attempting to restrain the inflationary forces. Only a few months remain before the Presidential election on October 3, 1955.

2. Developments in the restrictive system

Since the 1953 Consultations with Brazil (October 1953) various changes have been introduced in the exchange system. These include: (1) changes in the export effective rates and other practices; (2) changes in the auction system, in import effective rates, and other exchange practices; and (3) conclusion of some payment agreements and renewal of some of those already existing.

Changes in export effective rates were introduced on various occasions as a result of increases in domestic money costs of production and of impediments to the normal flow of coffee exports. They finally involved: an increase in the level of exchange rates expressed in terms of cruzeiros per units of foreign currencies; an increase from two to four in the number of

categories of commodities to which different effective rates apply; <sup>1/</sup> and the establishment of a differential treatment in favor of exports in convertible currencies and in pounds sterling. Among the other exchange practices affecting the export side of the system, the relaxation of the prescription of currency in favor of the acceptance of payments in pounds sterling for exports to all inconvertible currency countries was the most important.

The changes in the import side of the exchange system involved the introduction of special separated auctions for materials for agriculture on a weekly basis, and for some other products on an occasional basis. This was motivated by the desire to afford a favorable treatment to the imports of these products. Other changes in the import side of the system involve the increase in the number of cities where auctions are held from 10 to 18; the adaptation of the percentages of exchange allocated to each category to the reduced exchange availabilities; some reclassification of commodities, mostly for protective purposes. Effective import rates were changed both by increasing the minimum bids for the cases in which such minima are effective; and by increasing the import surcharges in relation to the increases in the cost of exchange. Finally, an increase in the remittance tax, which applies to most payments, from 8 to 10 per cent, was introduced on January 1, 1955.

Four additional payment agreements were signed, with Bolivia, Hungary, Poland, and Turkey. These agreements were of the usual bilateral type, the conventional agreement dollar being the currency in each of them. Several other payment agreements were renewed. These agreements, however, appear to be losing importance in Brazil.

The law authorizing the auction system was extended to June 30, 1956, with the power granted to the Executive Branch of the Government to abolish the system totally or partially, and to transfer imports to the free market, with fixed surcharges.

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<sup>1/</sup> At present the bonuses applicable to Categories I and II are the same.

### I. External Economic Position

In several postwar years Brazil sustained a very significant trade deficit. The more serious were the deficits of 1951 and 1952, which contributed to the accumulation of very substantial trade arrears and imbalances in payment agreement accounts. These were met in 1953 by extraordinary financing in the case of U.S. dollar arrears, by a funding agreement in the case of sterling arrears with an initial payment of £10 million which was drawn from the Fund, and by special arrangements in the case of West German payment agreement dollars. In 1954 a significant dollar deficit occurred which was primarily financed by foreign borrowings with the pledge of gold reserves.

In 1954 the value of Brazil's total trade, in both directions, exceeded that of the previous year. There was a smaller surplus on trade account than in 1953 and a larger deficit in other current account items, resulting in a significantly larger deficit on the over-all current account. There was a substantial trade deficit in dollars. A factor contributing to the deficit in the dollar sector was the failure of dollar earnings to increase in the second half of the year, as they usually do owing to a sharp decline in the volume of coffee exports. However, the very sharp reduction in the volume of coffee exports did not result in a proportionate decrease in exchange earnings because coffee prices were somewhat higher than in previous years. The value of dollar exports was less than in 1953, while the value of imports exceeded that of 1953.

There was a significant increase over 1953 in trade in non-dollar currencies, in both directions. Exports in non-dollar currencies exceeded dollar exports. There was also a decline in the volume of coffee exports to Europe, compared with 1953, but coffee plays a lesser role in trade with Europe than is the case in dollar trade, and increased exports of other commodities made for a higher total of exports in 1954 than in 1953. The level of imports exceeded that of 1953, and this contributed to the maintenance of domestic economic activity at continued high levels.

The prospects for dollar payments are less encouraging. Receipts are expected to be at low levels and the bulk of these are allocated for such imports as petroleum products, some government payments, and the servicing of contractual debt. At the moment, only \$10 million a month is being auctioned for private imports, and there would appear to be no indication that this amount can be increased in the near future. Export receipts in the first quarter of this year have been roughly only one half of the \$60 million a month which had been conservatively estimated at the beginning of the year.

The prospects for payments in 1955 in non-dollar currencies would appear to be encouraging. The value of minor exports is more important than in dollar trade. On the import side, sources of raw materials and capital equipment in non-dollar markets have been found and there is very little debt servicing in non-dollar currencies.

An important element in the balance of payments is the increasing quantities of fuels and raw materials that have to be imported to supply industrial plants.

1. Balance of payments

Available data on the balance of payments for 1954 are still in a preliminary stage, especially insofar as capital transactions are concerned. In this tentative estimate for 1954 there is a higher level of trade than in 1953, in each direction. The total of exports (f.o.b.) was the equivalent of \$1.56 billion, and imports (f.o.b.) the equivalent of \$1.4 billion. This compares with exports and imports in 1953 of \$1.54 billion and \$1.12 billion, respectively. In 1954 there was a trade surplus of \$147 million, compared with a surplus of \$423 million in 1953. As for the other items in current account, there was a deficit on account of interest, profits, and dividends of foreign capital invested in Brazil equivalent to \$140 million, compared with a deficit of \$126 million in 1953. The total of nontrade items on current account showed a deficit equivalent to \$427 million, compared with \$353 million in 1953. This deficit was met primarily by some \$264 million of external loans, including loans from the Federal Reserve Bank of New York, a group of U.S. commercial banks, the International Bank, and the Export-Import Bank.

The value of total exports exceeded that of 1953 by a small margin, as previously indicated. While there was a very sharp decline in the volume of coffee exports, this was to some extent offset by higher coffee prices and considerably improved levels of exports of cotton, cacao, and other minor exports. Total exports of \$1,562 million included \$948 million of coffee, or 61 per cent (1953, 68 per cent); \$223 million of cotton, or 14 per cent (1953, 7 per cent); \$136 million of cocoa, or 9 per cent (1953, 5 per cent); and \$255 million of other exports, or 16 per cent (1953, 20 per cent). There was an increase in exports in inconvertible currencies and a decrease in exports in convertible currencies, as shown in Table 3 in the Appendix. In inconvertible currencies, Brazil's foreign trade increased in both directions. In convertible currencies there was an increase in imports and a decline in exports.

(1) Payments position in convertible currencies

Trade in convertible currencies was characterized by a very substantial deficit. Exports totaled \$596 million (f.o.b.) and imports totaled \$844 million (c.i.f.), with a deficit of \$248 million. (See Table 1 in the Appendix.) A breakdown of purchases and sales of convertible currencies is also available, as shown in Table A.

Total convertible currency receipts for 1954 were \$605 million and expenditures \$968 million, there being, therefore, a deficit in exchange purchases and sales of some \$363 million. Receipts in the first half of the year were some \$301 million and in the second half of the year \$304 million. Dollar expenditures totaled \$492 million in the first half of the year and were only slightly decreased, to \$477 million, in the second half of the year. As shown in the table, there was a considerable increase in receipts in

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Table A Official Exchange Market - Receipts and Expenditures in Convertible Currencies  
(In millions of dollars)

	1954												1955	
	Jan-June	July	Aug.	Sept.	Oct.	Nov.	Dec.	July-Dec.	TOTAL	Jan.	Feb.			
<b>RECEIPTS:</b>														
I. Exports & related services	300.8	30.4	31.1	51.0	35.2	102.9	54.5	304.4	605.2	20.6	23.5			
(a) Cotton	300.1	29.1	29.3	48.4	36.3	102.7	53.8	299.8	599.9	23.0	24.1			
(b) Cacao		.3	4.6	.0	.0	.4	.3	5.8		.1	.2			
(c) Coffee		1.4	7.1	8.0	2.5	4.6	3.7	27.2		4.0	1.8			
(d) Other products		22.2	13.6	36.2	28.8	93.5	44.6	238.9		23.4	14.4			
(e) Related services		5.3	3.9	4.1	4.9	4.2	5.2	27.7		5.4	7.7			
Other receipts		.0	.0	.0	.0	.0	.0	.0	14.8	.0	.0			
II. Other receipts	6.8	1.3	2.4	2.7	.2	.7	.7	8.0		.1	.7			
III. Cancellation of purchases	-6.1	-7	-5	-1	-1.3	-5	-8	-3.4	-9.5	-2.7	-2.1			
<b>EXPENDITURES:</b>														
I. Imports & related services	491.7	84.8	113.2	91.6	63.2	55.7	59.8	477.1	968.8	23.8	28.6			
(a) Gov't entities	417.5	76.9	69.2	76.4	55.8	45.8	49.9	374.1	791.6	28.1	20.6			
(b) Petroleum	32.5	4.3	8.9	2.9	1.9	4.1	6.0	28.1	60.6	3.5	3.9			
(c) Wheat	86.5	27.5	22.0	24.6	19.9	15.8	17.0	126.9	213.4	8.7	6.6			
(d) Paper & printing supplies	16.8	2.5	.0	12.4	2.0	.6	2.5	19.9	36.7	2.7	.0			
(e) Moving pictures	7.2	1.5	1.9	1.0	1.2	1.1	1.1	7.9	15.1	.6	.6			
(f) Books & periodicals	3.4	1.1	1.5	.5	.9	.6	.3	4.9	8.3	.8	.6			
(g) Other imports	2.3	.3	.3	.2	1.1	.4	.6	1.9	4.2	.3	.2			
(h) Related services	267.4	39.6	34.6	34.6	29.7	23.2	22.3	183.9	451.3	11.3	11.8			
II. Services & capital items:	1.5		.0	1.1	.0	.0	.1	.3	1.8	.1	.0			
Public:	73.4	7.1	43.7	15.2	7.2	9.4	9.2	91.8	165.2	4.4	7.6			
(a) Eximbank, principal & int.	37.2	5.9	41.6	7.6	6.7	8.8	8.1	78.7	116.2	3.1	6.2			
(b) Treasury Delegation	4.7	1.1	36.0		.3			38.6	43.3					
(c) Other	32.8	2.9	.0	1.1	1.8	1.0	6.7	6.7	39.5	1.0	1.0			
Private:		1.9	5.6	6.5	4.6	7.8	8.1	33.3	33.3	2.1	6.2			
(a) Income	25.9	1.2	2.1	7.6	.5	.6	1.1	13.1	49.0	1.3	1.4			
(b) Other	28.5	.0	.0	7.0	.0	.0	.2	7.3	35.8					
III. Other expenditures	7.5	1.2	2.1	.6	.4	.6	.9	5.8	13.3	1.3	1.4			
IV. Cancellation of sales	1.8	1.0	.5	.3	.7	1.0	1.1	4.5	6.3	1.7	.6			
	-1.0	-2	-2	-2	-5	-4	-4	-2.2	-3.2	-5	-2			

Source: Bank of Brazil, Exchange Department.

November 1954, when coffee exports were resumed on an increased scale. In subsequent months receipts declined, being \$55 million in December 1954.

During the first quarter of 1955 receipts continued at a low level, having been \$31 million in January, \$24 million in February, and \$45 million in March. The authorities were able to drastically reduce payments, to \$34 million in January and \$29 million in February, and this explains the fact that the authorities were able to meet payments without additional borrowing. In February the Export-Import Bank extended a \$75 million loan to Brazil, but this has not yet been used.

(2) Payments position in inconvertible currencies

Trade in inconvertible currencies was characterized by a reduction in the volume of exports. Due to higher prices and renewed exports of cotton, the value of exports was well above that of 1953. Trade in inconvertible currencies was as follows: exports (f.o.b.) US\$954 million, compared with US\$871 million in 1953; imports (c.i.f.), \$818 million, compared with \$714 million in 1953. In trade in payment agreement currencies, payments were held within the prescribed swing balances.

The Bank of Brazil's purchases and sales of inconvertible currencies are shown in Table B. Payments were held within earnings. Earnings for the year totaled \$968 million (or considerably more than purchases of inconvertible currencies) and payments totaled \$948 million (somewhat less than sales of convertible currencies. In inconvertible currencies there was, therefore, a small surplus of purchases of the equivalent of some \$20 million.

(3) Payments relations with West Germany

West Germany has now become Brazil's second most important trading partner, as shown in Table 2 in the Appendix, on trade by countries. Exports to West Germany in 1954 increased to the equivalent of \$186 million, compared with \$167 million in 1953, and imports from West Germany to the equivalent of \$160 million (c.i.f.), compared with \$111 million in 1953. Brazil reduced the payment agreement account balances by some \$52 million during the year, the debtor balances on selected dates being as follows:

December 12, 1953	\$77.0 million
June 28, 1954	59.3 million
December 27, 1954	25.1 million
March 21, 1955	33.4 million

This rapid reduction in the negative balance appears to be associated with the existence of the free market in West Germany for payment agreement "dollars." The Brazilian authorities appear to have also tolerated some re-exports by West Germany of Brazilian products. Finally, the amounts of German agreement dollars offered for auction were reduced during the last part of the year.



(4) Payment relations with the United Kingdom

According to available trade data for 1954 (see Table 2 in Appendix), exports to the United Kingdom totaled the equivalent of \$74 million, compared with \$87 million in 1953, and imports the equivalent of \$18 million (c.i.f.), compared with \$51 million in 1953.

Trade with the United Kingdom, which was resumed after the 1953 agreement, has resulted in exchange availabilities in pounds sterling only slightly larger than the amount of official payments, including the payments provided for in the agreement, that is, £6 million for the amortization of the commercial arrears and £15 million for petroleum payments. The remainder, after deduction of other official payments, was offered for auction, mostly during the months of September, October, and November 1954.

The commercial arrears in sterling stood at £59.9 million on September 30, 1953. Under the agreement of October 1, 1953, Brazil was committed to an annual payment of £6 million, in addition to the initial payment of £10 million (purchased from the IMF).

Since October 1, 1953, and through March 25, 1955, this debt has been reduced by some £24 million, as follows:

	<u>£ million</u>
Debt on September 30, 1953	59.9
Additions to the balance of arrears	2.8
	<u>62.7</u>
Cotton transactions	8.3
Initial payment	9.9
Annual minimum	<u>8.2</u>
	<u>26.3</u>
	36.4
Cancellations	<u>0.5</u>
Balance on March 25, 1955	35.9

(5) Payment relations with Holland and Belgium

In trade with Holland, exports in 1954 were \$45 million and imports \$34 million, compared with \$44 million and \$17 million, respectively, in 1953. Exchange receipts during the year have been barely sufficient to meet official payments and payments for government imports. This explains the fact that Dutch agreement dollars were auctioned during the year only occasionally and in small amounts. There was an improvement in the negative balance, as shown by the following figures:

<u>End of month</u>	<u>Millions of US\$</u>
December 1953	2.5
March 1954	1.3
June 1954	1.3
September 1954	2.1
December 1954	0.8
March 1955	0.9

In trade with Belgium, exports in 1954 were \$22 million and imports \$4 million, compared with \$26 million and \$8 million in 1953, respectively. This favorable trade balance has permitted the complete repayment of the commercial arrears and the balance on March 26, 1955, in favor of Brazil was \$3.4 million.

(6) Payment relations with other countries

In 1953 Brazil had a very large trade deficit with Argentina, amounting to \$103 million, which was effective in liquidating the large accumulated credit balance with that country. This deficit was reduced to \$7.4 million in 1954, largely as a result of a substantial reduction in imports from Argentina, from \$188 million in 1953 to \$107 million in 1954, but also to an increase in exports, from \$85 million in 1953 to \$99 million in 1954. These trends were the result of a reduction in the amount of exchange auctioned for imports from Argentina.

In 1954 there was an over-all decline in Brazil's trade with France, mainly as a result of a large decline in imports, from \$121 million to \$86 million, attained through the limitation of the amount of foreign currency offered for auction. Thus, after the deficit of \$26 million in 1953, there was a surplus of \$8 million in 1954.

In its trade with Italy, Brazil had a surplus of \$23 million in 1953. This helped in reducing the debt balance accumulated in previous years in the Payment Agreement Account with Italy to \$11.7 million at the end of 1953. During 1954 the Brazilian authorities regularly offered at auction Italian Agreement dollars, and this resulted in an expansion of imports from \$27.5 million in 1953 to \$48 million in 1954. Exports to Italy, on the other hand, rose only slightly, from \$51 million to \$53 million, but even so there was a trade surplus of nearly \$5 million in 1954, and the deficit in the Payment Agreement Account was reduced to \$5.4 million at the end of 1954. This debit balance was reduced further to \$2.2 million at the end of March 1955, indicating that a trade surplus of roughly \$3 million was attained in the first quarter of 1955. The reduction of Brazil's debit in payment agreement "dollars" was as follows:

	<u>US\$ million</u>
December 1953	11.7
March 1954	8.8
June 1954	2.6
September 1954	2.9
December 1954	5.4
March 1955	2.2

There was an over-all expansion of trade with Japan in 1954, but the expansion of imports was much larger than the increase in exports, and Brazil had a net deficit of about \$13 million in 1954, compared with a surplus of \$42 million in 1953. This also explains why, toward the end of 1954, exchange auctions for imports from Japan were considerably reduced.

Similarly, Brazil's trade with Sweden resulted in a deficit of \$5 million in 1954, after a small surplus of about \$1 million in 1953, as a result of both an increase in imports and a fall in exports. The rising trade deficit with Sweden also led the Brazilian authorities to reduce the amount of Swedish kronor offered in auction toward the end of 1954.

(7) Export commodities, composition of imports, and terms of trade

Market conditions for Brazil's export commodities underwent some significant changes during 1954. In the case of coffee, prices rose sharply in the early part of 1954, to record levels, and then declined after April, there being a particularly sharp decline after the depreciation of the coffee export rate in August. (See Part II, page .) The exchange rate for coffee was again changed in November 1954, the rate being fixed. There was an increase in the volume of exports of coffee in November, but again a decline ~~followed~~ in the following months. The decline in the volume of coffee exports is reviewed in the section on coffee.

In the case of cotton, all of the production and remaining stocks were sold during the year at remunerative prices; in fact, 1954 was one of the best cotton export years on record. The cotton accumulated during 1952 was almost entirely disposed of in 1953. Part of this was sold to the United Kingdom, with the understanding that the proceeds would be applied to the reduction of the commercial arrears. These transactions with the United Kingdom amounted to £8.3 million. It would appear that with inflation production costs have been affected and on May 4, 1955, cotton exports were moved to a higher category. (See Part II, page .)

Cocoa prices were relatively high during the year, and export receipts reached satisfactory levels, with expectations of a continued high level of cocoa export receipts for this year.

The composition of imports underwent no important change during 1954, as shown in Table 4 in the Appendix. There was a more than proportional increase in imports of raw materials and in imports of chemicals and pharmaceutical products, in part the result of the procedure of auctioning exchange. Imports of machinery and equipment were in the same proportion as in 1953. There was a sharp reduction in imports of foodstuffs. Of the value of total imports, 30 per cent represented imports of machinery, equipment, spare parts, and vehicles; 28 per cent consisted of raw materials; 15 per cent foodstuffs; 12 per cent consisted of other manufactures; and 15 per cent was other imports.

Imports of petroleum products continue to require payment primarily in dollars, and a considerable proportion of dollar earnings appears to have been applied to these imports. With the recovery of Argentina's agriculture, some 1.2 million metric tons of wheat is expected to be imported from that source this year, and this will tend to reduce the burden of dollar payments. Wheat imports in 1954 totaled 2.8 million metric tons, as shown in Table 5 in the Appendix.

During 1954 the terms of trade improved for Brazil. This improvement in the terms of trade was accounted for by the greater increases in coffee and cocoa prices in the first part of the year, compared with import prices. The continued increases of the index of export prices during the remainder of the year appears to have been accounted for by the rise in prices of other products, the price of coffee having declined. The relationship of export and import prices is shown in Table 6 in the Appendix.

## 2. External reserves position

The analysis of the external reserves position is somewhat involved, since it includes assets such as gold, convertible currency balances, payment agreement balances, certain bankers' lines of credit. To ascertain the working position certain liabilities must be deducted. Taking these factors into account it appears that during 1954 the external reserves position deteriorated significantly.

### (1) The gold reserves

At the end of 1954 gross gold reserves totaled the equivalent of \$321.8 million, including \$62.2 million deposited in the Bank of Brazil and \$259.6 million deposited in the Federal Reserve Bank of New York.

Of total gold holdings of \$321.8 million, some \$200 million is pledged for the principal of the five-year loan from a group of U.S. commercial banks negotiated in November 1954, and some \$13 million is pledged for interest on this loan, leaving an unpledged balance of some \$108 million. The law provides that a 25 per cent reserve (in gold and/or foreign exchange) be maintained against the note issue, a requirement which perforce has not been complied with under the pressure of circumstances. Since the note issue is currently in excess of Cr\$55 billion, the required reserves should be the equivalent of \$750 million at the official rate. This is considerably more than current gross reserves.

### (2) The dollar position

The position in U.S. dollars has become increasingly tight. Bankers' balances have been drawn down and are now at very low levels. However, there is an unused balance under the unsecured lines of credit with U.S. commercial banks. There are also the remaining unpledged gold reserves of \$108 million.

The balances with bankers totaled some \$38 million at the end of the year. These balances were drawn down and by the end of February 1955 they totaled \$7.5 million. Of the unsecured lines of credit made available by U.S. commercial banks, the total of which is estimated at \$90 million, between \$30-\$40 million now reportedly remains unused. At the end of February 1955, therefore, bankers' balances and unused lines of credit totaled between \$50 million and \$60 million.

There are a number of significant dollar commitments, short- and medium-term. These comprise: (1) Current borrowings from U.S. commercial banks, consisting of borrowings under the unsecured lines of credit extended by said banks, including overdrafts and 90-day acceptances. (2) A float of dollar certificates outstanding. Since less dollar exchange is now auctioned, it

follows that this balance will gradually decline. (3) Pending payments for imports which have already entered the country (not all imports are paid for with exchange purchased at auction). These may constitute a new type of arrears to the extent that delays in payment are involved. (4) Swap operations, which are either periodically paid off or extended. (5) Drawings on the Fund, with repayment in 1957 and 1958. (6) Two especially large loans which should be noted because of their magnitude and maturity. These are the \$300 million loan of the Export-Import Bank and the \$200 million gold loan from U.S. commercial banks.

The nature and extent of these short- and medium-term commitments are as follows:

- (a) \$40-\$50 million Recently reported unsecured overdrafts and 90-day acceptances with U.S. commercial banks. Total lines available to Brazil are reported to be \$90 million.
- (b) \$76 million The float of U.S. dollar certificates which have been sold at auction, mostly on a 120-day basis, as of February 2, 1955.
- ~~(c) \$144 million~~  
(c) \$144 million Exchange commitments resulting from imports which have already entered the country (taken from estimate of purchases and sales for 1955).
- (d) \$20-\$30 million Swap operations. It is reported that there are foreign interests who would engage in these transactions for the purpose of obtaining cruzeiros.
- (e) \$65.5 million Drawings on the IMF, with a repayment schedule in 1957 and 1958.
- (f) \$300 million From the Export-Import Bank of Washington. Originally contracted 2/21/53, with the servicing periodically modified. Presently \$4.2 million a month through September 1960.
- (g) \$200 million Five-year gold collateral loan with repayment beginning in November 1959 and running through October 1960.

The amount of dollar certificates outstanding has steadily declined in recent months as lesser amounts of dollars have been auctioned. Recent balances of outstanding certificates are as follows:

1954	
June 30	\$176.5 million
December 31	97.8 million
1955	
February 19	76.4 million

(3) Position in non-U.S. dollar currencies

Brasil's position in non-dollar currencies consists of payment agreement currencies and payment agreement "cruzeiro" accounts. The over-all net position in these two categories of currencies at the end of 1954 was negative in an amount equivalent to \$19 million, as follows:

	<u>Assets</u> (In millions of U.S. dollars)	<u>Liabilities</u> (In millions of U.S. dollars)
Payment agreement currencies	--	10
Cruzeiro balances	--	<u>9</u>
Total net position		19

At the end of 1954 the positive balances for the payment agreement currencies totaled the equivalent of \$51 million, and the negative balances the equivalent of \$61 million, with a net negative balance of \$10 million. At the end of February 1955 the positive balances totaled \$68 million and the negative balances \$66 million. The more important positive balances were those with Argentina, Finland, Japan, and Spain. The more important negative balances were those with West Germany, Uruguay, and Sweden, as shown in Table C.

The amount of exchange certificates outstanding has declined in recent months. For all non-dollar currencies they totaled the equivalent of US\$202 million on June 30, 1954, fell to \$153 million at the end of 1954, and then rose to \$171 million on February 19, 1955, the last date for which information is available.

3. The arrears

The commercial arrears were significantly reduced during 1954. At the end of 1952 the arrears totaled \$637 million, of which about \$444 million was in convertible currencies (mostly U.S. dollars) and the equivalent of about \$193 million in inconvertible currencies (mostly pounds sterling). At the end of 1953 the arrears were reduced to the equivalent of \$262 million. At the end of 1954 they had been reduced to the equivalent of \$114 million, as follows:

Convertible currencies	\$ 7.7 million
Inconvertible currencies	<u>106.1 million</u>
	113.8 million

The arrears in convertible currencies were reduced by some \$76 million during 1954. This decline reflected the reduction of the arrears in Canadian dollars.

4. The external debt

The external debt, represented by bonds, has been reduced to modest proportions, but the loans contracted in recent years, mostly dollar loans, have sharply increased.

The external debt, represented by bonds of the federal, state, and municipal governments, is almost entirely in dollars and sterling. This debt, contracted prior to 1930, has been steadily reduced to what are now modest proportions, in accordance with debt plans negotiated with the bondholders. At the end of 1954 the total of these obligations had been reduced to \$197.8 million, \$88.1 million in pounds sterling and \$109.7 million in U.S. dollar bonds.

The external debt, represented by official and other loans, contracted in more recent years, is almost entirely in dollars, and has increased sharply. The bulk of these loans are medium-term loans; the service and amortization payments are especially large in the years immediately ahead and through 1960, declining thereafter.

As a result of the extraordinary dollar financing to meet the dollar deficit in the last few years, the burden of debt servicing has now become relatively large in the case of the dollar debt. The over-all external debt, which can be estimated at something over US\$1.4 billion, does not at first glance appear to be excessive, when measured in relation to such economic criteria as GNP or foreign trade. But it does reveal a repayment problem when broken down by maturity and currency. About 81 per cent of the debt is in U.S. dollars and the bulk of the dollar debt is now medium-term. This is due primarily to the \$300 million loan of the Export-Import Bank in 1953 to help pay off the dollar arrears and the November 1954, \$200 million, five-year loan from a group of U.S. commercial banks to repay the loan of \$160 million from the Federal Reserve Bank due this year and provide an additional \$40 million of funds. As the monthly instalments on the Federal Reserve loan fall due, an equivalent amount is drawn down on the \$200 million loan, an amount which then becomes due in five years.

As previously mentioned, Brazil's contractual obligations can be estimated at roughly US\$1.4 billion. Most of this is dollar debt (\$1,140 million, or 81 per cent of the total) and sterling debt (\$216 million, or 15 per cent of the total). Of the dollar debt of \$1,140 million, the more important part is accounted for by Eximbank loans (\$591 million, or 42 per cent of the total debt), as shown in Table D.

Table D. Estimated Medium- and Long-Term  
Public and Private Debt  
(In millions of U.S. dollars)

	Amount	Percentage
Total	1,411.5	100
U.S. dollars	1,139.9	81
Export-Import Bank	590.6	42
IBRD	165.4	12
U.S. commercial banks	200.0	14
Other	183.9	13
Sterling	216.0	15
Other currencies	55.6	4

Table C. External Reserves: Balances in Payment  
Agreement Currencies, February 28, 1955  
(In millions of dollars)

	Balance in favor of Brazil	Balance against Brazil
Sterling		3.3
Iceland "pounds"		0.8
German (dollars)		26.7
Argentine "dollars"	17.1	
Austrian "		2.7
Bolivian "	0.5	
Chilean "	0.1	
Spanish "	5.9	
Finnish "	10.0	
French "		1.7
Greek "		2.4
Dutch "		4.0
Hungarian "	1.2	
Italian "	0.6	
Yugoslav "	3.6	
Japanese "	7.5	
Norwegian "	2.2	
Polish "	1.9	
Portuguese "		5.2
Czech "	3.8	
Turkish "	2.6	
Uruguayan "		12.1
Danish kroner	2.9	
Swedish kronor		7.3
Czech korunas	1.1	
French francs	2.5	
Belgian francs	4.7	
Pesetas		—
Bolivianos		—
<b>Total</b>	<b>68.4</b>	<b>66.4</b>

Source: Bank of Brazil, Exchange Department.

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Table E includes an estimate of the debt service (interest and amortization) on the public external debt in convertible currencies. Private debts are not included. The burden of repayment is concentrated in the next few years, rising to a peak in 1960. However, thereafter the debt service falls off sharply to easily manageable proportions.

While exports and imports are normally divided about equally between dollars and other currencies, since an estimated 81 per cent of the debt is in U.S. dollars, debt service falls more heavily on the dollar sector of external payments. With the recent \$200 million, five-year refunding operation which provided for the repayment of the Federal Reserve Bank loan of \$160 million which would have been due this year, the servicing of the dollar debt became more manageable in 1955 and 1956. Thereafter, the servicing rises sharply to a peak of \$233 million in 1960.

## 5. Coffee

Only part of the coffee available for export moved in the last year. The volume of coffee exports declined, beginning in May 1954, and the volume of exports has been maintained at low levels since that time. A minimum price for coffee was established, effective July 1, 1954. The dollar equivalent of this cruzeiro minimum was later progressively reduced in order to maintain coffee exports. The outlook is for a larger carry-over on June 30, 1955, increasing production, and a return to surplus conditions. In the course of the next two months a minimum price must be established for the next marketing year (July 1, 1955, to June 30, 1956).

### (1) Recent developments

During the marketing year 1953-54, the low level of the carry-over and the July 1953 frost in Brazil induced heavy inventory accumulations in the United States. This was accompanied by a record rise in the price of coffee, from the level of about 50 cents a pound, around which the price had fluctuated for several years, to an all-time high peak of over 90 cents a pound in the beginning of April 1954, as shown in Table 9 in the Appendix. Later reports indicated that the damage to the trees caused by the frost had been overestimated. Prices then tended downward and the reported policy of inventory accumulation in the United States gave way to one of inventory depletion, and this continued to the end of the year. At that juncture, June 3, 1954, Brazil established a minimum price of 87 cents a pound; at the export rate of Cr\$23.36, the cruzeiro equivalent was Cr\$20.32 per pound. The volume of coffee exports declined and Colombia and other producing countries were able to sell their supplies at prices slightly below the Brazilian price. These countries were able to sell practically all of their coffee, while Brazil accumulated stocks. The carry-over in Brazil on June 30, 1954, was 3.3 million bags, instead of 1.5 million as previously expected. World production showed a slight increase over the previous year, instead of a significant decrease.

Table E. External Debt - Exchange Commitments Resulting from Loans, Credits and other Financial Operations in Convertible Currencies - As of December 31, 1954

(In millions of dollars)

Year	For Economic Development			For Other Purposes				Total	Percent of exports <sup>1/</sup>
	IBRD	Eximbank	Other	IMF	Eximbank	External debt	Other		
1955	7.1	27.7	8.6	--	50.4	11.8	3.6	109.2	18
1956	7.6	29.9	6.0	--	50.4	11.8	5.5	111.2	19
1957	9.3	28.1	2.3	25.0	50.4	11.8	5.5	132.4	22
1958	10.8	29.4	1.3	40.5	50.4	11.8	5.5	149.7	25
1959	10.7	25.0	0.2	--	50.4	11.8	72.3	170.4	28
1960	10.7	23.7	--	--	50.4	11.8	136.0	232.6	39
1961	10.7	20.4	--	--	17.7	11.8	--	60.6	10
1962	10.8	19.2	--	--	--	11.8	--	41.8	7
1963	10.9	18.4	--	--	--	11.8	--	41.1	7
1964	11.0	17.7	--	--	--	2.6	--	31.3	5
1965	11.1	15.6	--	--	--	--	--	26.7	4
1966	11.1	5.7	--	--	--	--	--	16.8	3
1967	10.6	5.4	--	--	--	--	--	16.0	3
1968	9.9	5.3	--	--	--	--	--	15.2	3
1969	9.9	5.2	--	--	--	--	--	15.1	3
1970	10.0	4.9	--	--	--	--	--	14.9	2
1971	10.0	4.6	--	--	--	--	--	14.6	2
1972	10.1	4.5	--	--	--	--	--	14.6	2
1973	10.1	3.4	--	--	--	--	--	13.5	2
1974	6.7	2.4	--	--	--	--	--	9.1	2
1975	3.0	2.3	--	--	--	--	--	5.3	1
1976	2.4	2.2	--	--	--	--	--	4.6	1
1977	1.0	--	--	--	--	--	--	1.0	--
1978	--	--	--	--	--	--	--	--	--
	205.5	301.1	18.4	65.5	320.1	108.8	228.4	1,247.7	

<sup>1/</sup> Dollar exports assumed at \$600 million.

Source: Superintendency of Currency and Credit.

World Exportable Production

	<u>Million bags</u>
1951-52	29.3
1952-53	32.0
1953-54	32.2
1954-55	33.0

At the same time the higher retail prices of coffee were accompanied by a 10 per cent reduction in consumption in the United States in 1954, or approximately 2 million bags, consumption being reduced from about 20 million to 18 million bags. In Europe the price rise appears to have merely slowed down the rate of expansion in consumption. With the recent retail price reductions in the United States, an increase of consumption is expected, but current trade reports indicate that this has not yet occurred. For the year 1954-55, world consumption can be estimated at 32 million bags, or slightly less than production. World imports were less than this, about 2.5 million less, or 29.5 million bags. The difference is accounted for by inventories being drawn down in the United States from 4.8 million on July 1, 1954, to 2.2 million by mid-February 1955, inventories in the rest of the world remaining more or less constant.

(2) The two coffee exchange rate depreciations

In order to adjust for the downward tendency of prices and the fact that other coffees were selling at a discount over Brazilians, a depreciation of the exchange rate for coffee was effected on August 16, 1954, exporters receiving the equivalent of the free market rate for 20 per cent of their export earnings. The cruzeiro minimum of Cr\$20.32 per pound was maintained. The depreciated export rate, which at that moment was about Cr\$31 per dollar, in effect lowered the dollar equivalent of the minimum price of Cr\$20.32 per pound to 65-1/2 U.S. cents per pound, as follows:

New minimum: Cr\$20.32 + 31 = 65.5 U.S. cents

Previously: Cr\$20.32 + 23.36 = 87.0 U.S. cents

The minimum price in cruzeiros was maintained. The minimum price in U.S. cents would then depend on the exchange rate. Thus, a weakness in the free market rate tended to reduce the dollar equivalent of the cruzeiro minimum. With a fluctuating mixed export rate of about Cr\$31 per dollar, the equivalent of the minimum was 65-1/2 U.S. cents per pound. If the effective exchange rate depreciated to, say, Cr\$40 per dollar, then the effective minimum would be 51 U.S. cents, etc.

Prices in the world market then fell sharply, by over 20 cents a pound. At this stage the free market rate was depreciating. To avoid speculation the authorities, on November 11, fixed the effective export rate for dollar coffee exports at Cr\$31.50 per dollar, an appreciation of about Cr\$2 per dollar over the rate that would obtain with the free market of Cr\$74 per dollar at that time.

After the change in the exchange rate in November, exports increased somewhat, particularly in November, but then declined again in December. With the new crops of other coffee-producing countries pressing on the market in January 1955, with prices of milds falling below prices of Brazilians, and with Brazil's earnings continuing at low levels, a second depreciation was effected on February 6, 1955. This second depreciation reduced the dollar equivalent of the cruzeiro minimum of Cr\$20.32 per pound to 54.8 U.S. cents per pound. The depreciation took the form of an increase in the export bonus for coffee (over and above the rate) from Cr\$13.14 to Cr\$18.70 per dollar. The effective dollar rate for coffee exports then became Cr\$37.06 per dollar, and the new dollar equivalent of the minimum 54.8 U.S. cents per pound, as follows:

New minimum: Cr\$20.32 + 37.06 = 54.8 U.S. cents per pound

Previously: Cr\$20.32 + 31.5 = 64.5 U.S. cents per pound.

This measure was accompanied by a decline in the prices of Brazilian coffees, but the prices of other coffees also declined, and shortly after were again selling at a discount to Brazils. Since that time prices have fluctuated at or just above the minimum with renewed roaster interest, but the very significant discount on forwards continues, March 1956's being approximately 39 cents a pound. As part of the measure of February 6, Brazil extended a guarantee to importers against losses from any further depreciation of the rate for a period of 45 days from the date of sale. This was aimed at encouraging exports.

The second of these exchange rate depreciations has not been accompanied by an increase in coffee exports, as shown in Table 8.

More recently, on April 28, 1955, the Minister of Finance instructed the Brazilian Coffee Institute to suspend purchases of coffee. This would appear to be a step in the direction of eliminating, de facto, if not legally, the effective minimum price. The domestic minimum price of coffee of Cr\$20.32 per pound has been an effective export minimum in the sense that the exporter could sell to the Institute at the minimum, or carry the coffee with credit from the Bank of Brazil of up to 100 per cent of the value of the coffee. It is reported that the Minister of Finance, in taking this measure, wished to avoid further note issues for the purpose of buying coffee, the Institute having acquired 3.1 million bags, and that he believed the withdrawal of this amount of coffee would restore a "statistical equilibrium." At the same time it was announced that the regular financing would continue on the same basis as before (up to 80 per cent of the minimum). It is not known whether the special 100 per cent financing for exporters will be continued. If it is not, then the effective export minimum would presumably be based on the 80 per cent financing, and in this event it would be approximately 44 cents a pound, compared with the effective export minimum of approximately 55 cents a pound which has prevailed in the recent past.

## 6. Cotton

Cotton is the second most important export product, although the percentage of total exports has varied considerably in recent years, from as much

as 16 per cent in 1946 to as little as 2 per cent in 1952. (See Table 10 in Appendix.) Brazilian cotton production amounts to about 400,000 metric tons per year, about half of which is usually exported. The principal importing countries are Great Britain, Germany, France, and Japan. (See Table 11 in Appendix.) With the drop in international prices during 1952--from a yearly average of around 58.2 cents per pound in the year 1951 to 47.6 cents--as well as the reduction in external demand brought about by the recess in the textile industry, Brazilian cotton exports practically ceased. Inflationary conditions in Brazil, resulting in increased cost of production, impeded cotton exports. Cotton became a "gravoso," that is, a product with a cost of production higher than the international price, at the prevailing exchange rate. Under instruction from the Government and in accordance with basic legislation for the financing of agriculture, the Bank of Brazil purchased almost the entire 1952 cotton crop, but was not able to dispose of it. During 1953 several attempts were made to restore the flow of cotton exports. First, in July, the authorities decided to establish prices for the accumulated stocks in line with U.S. prices and in some cases waived the prevailing "no re-export" clause in cotton contracts. Later, in October, a more direct stimulus was given with the introduction of the new exchange system under which a bonus of Cr\$10.00 per dollar was paid in addition to the official rate. Although this last measure was taken at the end of the year, cotton exports during 1953 (about 140,000 tons) were at practically the same level as for the period 1949-51, partly due to the sale of about \$8.2 million to the United Kingdom for the purpose of reducing commercial arrears. During 1954, as a result of the October 1953 exchange measures and subsequent modifications in the effective export exchange rate, described in detail in Part II--Changes in the restrictive system, cotton exports reached the second highest level of recent years, of about 290,000 tons. Only in 1939 were cotton exports more, when they amounted to 324,000 tons. Although international prices for Brazilian cotton were somewhat lower in 1954 than in 1953--34.5 cents per pound in 1954, compared with 37.9 cents in 1953--the larger volume of exports resulted in a total value of cotton exports in 1954 of about \$223 million, or more than double that of 1953.

This sharp increase in the value of cotton exports was one of the most significant factors contributing to the record levels of exports to non-dollar countries during 1954.

During the first part of 1955 cotton exports appear to have been at a normal level. According to the latest reports from Brazil, the volume of cotton stocks continues to decrease. By the end of February stocks amounted to about 131,548 tons. On March 26 they had been reduced to 26,059 tons. However, it appears that the continuance of price increases in 1954, perhaps more accentuated in the second part of the year, when the new minimum wage law came into effect, may have an impact in the form of increased costs of production, which would affect the 1954-55 cotton crop, the harvest of which begins this month. According to nonofficial estimates, the new crop is expected to be slightly higher than the 1953-54 crop of 450,000 tons.

#### 7. Prospects for 1955

The balance of payments prospects for 1955 continue to be mixed. In the case of dollar trade the prospects are not encouraging. The level of imports

of 1954 (higher than in 1953) is not expected to be maintained. Imports were financed in part by extraordinary external borrowing. However, with a growing population, an expanding industrial plant, and with strong inflationary forces, the demand for imports will continue at high levels. The authorities will continue to be faced with this demand in establishing the amount of exchange to be auctioned, particularly for essentials. The level of dollar exports in 1954 was less than in 1953, and dollar earnings continued at low levels the first quarter of 1955. These earnings are approximately one half of what had been conservatively projected at the end of the year. While the picture is to some extent improved by the outlook for minor exports, the bulk of dollar receipts is still derived from coffee exports, and the prospects for these exports are very uncertain. In their estimate of exchange earnings and payments, which must continue to be very tentative, the Brazilian authorities at the moment foresee a substantial deficit in U.S. dollar payments for 1955, but, significantly, they foresee no need for any new major borrowing operations abroad during the year, other than borrowings under existing lines of credit and swap operations. The float of dollar certificates might increase were the Bank of Brazil to issue certificates with maturities beyond 120 days, but it would appear that the Bank is adhering to the 120-day maturity. If coffee shipments continue at the present reduced rate, it can be expected that the lines of credit with U.S. commercial banks will be drawn down further.

In the case of inconvertible currencies, the prospects appear to be encouraging. Trade in inconvertible currencies has been expanding generally in both directions during the last year. The payments position in non-dollar currencies is not burdened with any significant amount of debt. In trade in inconvertible currencies, coffee is not as important as it is in dollar trade, and coffee developments therefore affect this trade to a lesser extent. Generally, relatively small proportions of Brazil's non-dollar earnings are needed for payments which are given a high priority, such as petroleum imports and debt payment. Petroleum payments in inconvertible currencies are limited to sterling at present. The high level of economic activity in Europe would suggest that trade with Brazil would continue to expand. There is the prospect of supplier credits being extended by certain European partner countries. Negotiations have been progressing with several important European partner countries, aimed at wider use of their currencies. Considerable progress has been made in reducing the arrears, and it could be expected that with the administrative discretion in the operation of the auction system no significant arrears would be accumulated this year, barring unforeseen circumstances.

As for the balance of payments projections, none are available as such. No exchange budget or projection of payments and earnings has been prepared for non-U.S. dollar currencies for 1955. While the authorities have very rough and tentative estimates of earnings and payments by currencies, especially useful as indications of the possible limits for imports, they do not consider it to be as necessary to have a formalized and approved exchange budget for these currencies. The policy is to keep payments within the limits imposed by receipts, within the terms of the payment agreements, and within the swing balances, and this is specifically the policy which has been followed with respect to the auctioning of these currencies. The policy is to some extent an ad hoc one, but the authorities have preferred to follow this pattern.

(1) Payment projections in convertible currencies

In the case of U.S. dollars a formal exchange budget was prepared, approved by the Council of the Superintendency, which was later revised. It is now considered to be obsolete in view of the low level of dollar earnings in the first quarter of 1955. More recently (March 1955), the SUMOC technicians have prepared a tentative estimate of convertible currency receipts and expenditures for 1955, which is presented in Table F.

The authorities consider that in this estimate of receipts and expenditures in convertible currencies, expenditures are at a very reduced level. ~~The bulk of available exchange will be applied to essential payments, including essential imports, invisibles, and debt services. There is a substantial suspended exchange commitments for imports brought in last year, and general commercial imports are expected to be held down to a minimum. Even with this reduced level of payments, additional borrowing is contemplated in the amount of \$271 million. Other than the \$75 million Eximbank loan approved in February 1955, these borrowings appear to include only drawings under existing lines of credit available and swaps, and no new large-scale credit operations abroad. The level of private imports and the magnitude of this necessary borrowing will, of course, depend on the amount of export earnings, and more particularly coffee earnings.~~

In preparing the convertible currency exchange budget for the first half of 1955, the Brazilian technicians assumed that the volume of coffee exports would be some 6 million bags in all currencies other than dollars, and 4 million in convertible currencies. Based on the experience of recent years, Brazil could normally be expected to export a total of some 16 million bags a year, of which 10 million would go to the United States and 6 million to other arrears. With the seasonality of exports, it might have been expected that Brazil could therefore export a total of some 6 million bags in the first half of 1955 and another 10 million in the second half. The volume of exports might have been even larger, since at the end of 1954 Brazil is estimated to have had approximately 10 million bags available for export because of the reduced volume of exports in the second half of 1954. The Brazilian technicians, therefore, calculated that out of a total of 6 million bags, which it was expected could be shipped in the first half of 1955, some 4 million bags would be exported in convertible currencies. At a price of 57 cents per pound, this was expected to produce about \$300 million dollars. Based on these same assumptions, coffee exports in convertible currencies would total some 10 million bags during the year, which, at the current price of 57 cents per pound, would have produced some \$750 million of coffee export earnings alone. However, in the early months of 1955 coffee exports were at critically low levels and the original estimates had to be drastically revised. As shown in the section on coffee, only 0.8 million bags were shipped to the United States in the first three months, instead of the 2 million which was expected. In the revised estimates, coffee exports in convertible currencies in 1955 are now estimated at \$360 million. At a price of 57 cents per pound, this would involve a volume of exports of only 4.8 million bags of coffee, compared with the 10 million bags which Brazil might normally be expected to export to the United States. The Brazilian technicians claim that since only 0.8 million bags were shipped in the first quarter of this year they are merely being

The bulk of available exchange will be applied to essential payments, including essential imports, invisibles, and debt services. There is a sub-

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Table F . Estimate of Earnings and Receipts  
in Convertible Currencies for 1955  
(In millions of dollars)

Item	Value
<u>Receipts</u>	<u>863.9</u>
1. <u>Exports</u>	<u>560.0</u>
Coffee	360.0
Cacao	40.0
Cotton	6.0
Other	154.0
2. <u>Services (consular receipts)</u>	<u>6.5</u>
3. <u>Capital transactions</u>	<u>270.9</u>
Swaps undertaken by Bank of Brazil	104.9
Lines of credit of Bank of Brazil	72.0
Special drawings	19.0
Recent Export-Import Bank loan	75.0
<u>Payments</u>	<u>863.9</u>
1. <u>Imports</u>	<u>557.9</u>
Petroleum products	197.8
Wheat	14.3
Imports by Government and official entities	48.7
Paper, periodicals, books, moving pictures	29.5
Import licenses prior to Instruction 70	3.5
Other import commitments	264.0
Spot exchange closed for immediate delivery	86.0
Exchange certificates outstanding	59.6
Exchange closed but not liquidated	118.4
2. <u>Services</u>	<u>101.0</u>
Service of external debt	3.5
Interest on \$300 million Export-Import Bank loan	9.4
Interest on \$200 million loan of U.S. commercial banks	2.7
Profits and dividends of public utilities	31.2
Other services	54.2
3. <u>Capital</u>	<u>205.0</u>
Amortization of external debt	8.4
Amortization of the \$300 million Export-Import Bank loan	41.0
Amortization of loans to public & private entities	30.7
Other capital payments	124.9

Source: Superintendency of Currency and Credit.

realistic in estimating this lower volume of coffee exports. The estimate assumes that coffee exports will continue at a low level; since there is uncertainty with regard to coffee exports for the balance of the year, any payment projections can only be regarded as very tentative at this time.

The other significant item of export earnings is that of other exports, which is estimated at \$154 million. This includes minor exports, and especially mineral exports, which are expected to substantially increase this year.

The payment side of the estimated projection is characterized by the relatively large magnitudes of the headings of Services and Capital Payments at \$101 million and \$205 million, respectively, for a total of \$306 million, or 35 per cent of total payments of \$863 million. Both of these headings include servicing of debt primarily. The heading of Imports totals \$558 million. Of this, some \$198 million are imports of petroleum products. This is somewhat less than the petroleum payments last year, but certain economies are expected from the increase in refining facilities in Brazil, which would result in a shift to imports of crude. Only \$14 million of wheat payments are estimated. This reflects the expected increase in wheat imports from Argentina and increased production at home.

The other item described as "other imports" is of some significance. The breakdown of this item, given on March 31, 1955, is the following:

	<u>US\$ million</u>
Spot exchange closed, for immediate delivery	86.0
Exchange certificates outstanding	59.6
Exchange closed but not liquidated	<u>118.4</u>
Total	264.0

All of the above items are the result of imports which presumably entered the country in 1954 and the first months of 1955. The first item of \$86 million represents exchange contracts for immediate delivery which importers presumably will be drawing down in the immediate future. The second item, \$59.6 million of exchange certificates, is the float of exchange certificates outstanding, which varies from time to time, depending on the amount of exchange auctioned and the life of the certificates, which for the last year has been 120 days. This balance is considerably less than that prevailing last year because of the progressive reduction in the amounts auctioned. The last item, exchange closed but not liquidated, of \$118 million, represents exchange contracts for imports entering in the recent past, which has not been liquidated. This item is of some significance. To the extent that any or all of this item represents delayed payments, they are tantamount to arrears. This table of estimated earnings and payments, drawn up by the SUMOC technicians, should not, technically, include this item of "other imports," since they may be more in the nature of accrued payments than estimates of expenditures for imports in 1955. Presumably dollar auctions will be continued at \$10 million a month, or \$120 million for the year, and this would be reflected in a possible increase of exchange certificates outstanding, exchange closed, etc.

## II. Internal Developments

Internal economic developments during 1954 were characterized by the increasingly rapid rate of inflation, with a record expansion of the money supply and bank credit, rising prices, and a less favorable budget situation. The level of imports exceeded that of 1953, although dollar imports were financed in part by substantial foreign dollar borrowing, and the volume of agricultural and industrial production was at a higher level than in 1953. There was a notable increase in electric power output. Business turnover was at higher levels than in 1953. The prospects for a continued high level of production would be generally good, were it not for the reduced level of dollar imports.

Bank credit was extended on a more generous scale, particularly by the Bank of Brazil. Loans to Government and government agencies accounted for a substantial proportion of the increase for the year. Toward the end of the year it appeared that the credit control measures taken in the second half of the year were having an effect, and commercial bank credit began to level off. The credit of the Bank of Brazil appeared to level off in the first two months of 1955. The budget situation of the three levels of Government was less favorable in 1954 and substantial deficits were sustained. Another deficit is expected for the federal budget in 1955, but the executive branch is endeavouring to introduce economies which would substantially reduce the expected deficit.

### 1. National Income and Economic Activity

Detailed national income data for 1954 are not available. On the basis of series on gross output and income, it would appear that the average annual growth in Brazil has been impressively high in the last decade, and particularly since the end of World War II--an average of 4.3 per cent per year. This rapid increase in real output reflected large-scale public and private investment, which has been estimated at having been as high as 18 per cent of the G.N.P. in 1951. Apparently, the growth lacked proper balance, and agricultural and livestock output has been lagging behind industrial and building activities. Within the industrial sector, the pattern of development appears also to have been somewhat distorted, the major expansion having occurred in the industries which greatly depend on imports for the supply of raw materials and fuels.

General economic activity was maintained in 1954 at a higher level than in 1953. National income at current prices is estimated to have risen from Cr\$337 billion in 1953 to Cr\$410 billion in 1954. Business turnover was maintained at high levels, increasing toward the end of the year. The index then showed a decline in the first two months of 1955. There was a decline in industrial production in the first half of 1954, attributed in part to the increase in the minimum wage law, but there was a recovery in the second half of the year. The volume of agricultural production increased

substantially in 1954. It exceeded that of 1953 and reached the highest levels on record, both in value and volume, accounting for a larger proportion of national income than in previous years, estimated at 34 per cent.

Building and construction declined. Unemployment increased in the middle of the year, but then decreased toward the end of the year.

Transportation continues to be the principal bottleneck for economic activity. Electric power is still in short supply, but the situation has much improved. The prospects for a continued level of economic activity in 1955 would appear to be favorable, were it not for the critical foreign exchange situation which has persisted and which may involve a low level of dollar imports.

(1) Industrial production

Industrial production declined during the first half of 1954 due perhaps to unfavorable expectations in the business community regarding the implementation of the minimum wage laws. There was a recovery in the latter half of the year, however, and production increased by 10 per cent in the whole of 1954, compared with 12 per cent in 1953. Production of consumer goods showed a sharper increase than production of capital goods, the reverse of what had occurred in the last few years. Of some importance in the industrial recovery in the latter half of the year was the sharp increase in electric power, capacity having been increased by 43 per cent in the Sao Paulo and Rio de Janeiro area, where the bulk of Brazil's industrial plants are located. The expansion was also due to the continued high rate of business investment. Another factor was the protective character of the exchange system, especially in the case of the less essential imports, which are in the higher categories. Raw materials received preferential exchange treatment, being in the lower import categories, and 1954 imports exceeded those of 1953. The increase in production costs resulting from the <sup>minimum wage</sup> ~~minimum wage~~ and the increase in competition made for greater incentive for efficiency and productivity. Nevertheless, several factors impeding production continued to operate. While electric capacity did increase, there were nevertheless periodic shortages, affecting production and discouraging plant expansion.

The index of the Conjuntura Economica for total industrial production indicates that the volume of production was maintained in 1954. The index for the monthly average in 1953 was 146 (1948 = 100), while in 1954 the monthly average was 156. As for individual sectors of industry, there was a significant rise in iron and steel production, the monthly averages being substantially above that for 1953 and previous years. The volume of production of the textile industry rose steadily during the first part of the year, the monthly averages being substantially above those for 1953 and previous years. Production tended to decline somewhat in June and July, but recovered toward the end of the year. Electric power output was maintained at a level substantially above that for 1953, reflecting additions to capacity. A substantial increase should be registered with the operation

of the Paulo Afonso project in the northeast. Representative indicators of the level of business turnover and volume of production are shown in Table 12. The steel industry produced at capacity in 1954. Some expansion plans were suspended because of the shortage of foreign exchange and the more depreciated effective import rates. However, it is now expected that expansion plans will be continued insofar as possible, since demand is estimated at more than double present capacity. Production of cement also increased, but is still short of demand.

The bulk of petroleum products are imported. They constitute the most important single item of imports. Payment is largely made in dollars, and some £15 million is being imported in sterling. From a balance of payments view, the substitution of these imports by domestic production is an important medium-term problem, particularly for the dollar sector. Petroleum production is carried on under the supervision of Petrobras, a government corporation set up in 1953. Present imports of petroleum products are estimated to be running at approximately \$200 million a year, and consumption at about 52.5 million barrels. This would be a daily rate of some 143 thousand barrels. Considerable progress has been made in building up refining capacity, with significant foreign exchange economies, estimated at upward of 25 per cent. Little progress has been made in developing crude production. There was a recent discovery in Nova Olinda, in the Amazon, which may augur well for the future. The field is eventually expected to produce between 500 and 3,000 barrels per day. Total production is reported to have been about one million barrels in 1954, or only 1.9 per cent of current consumption. With consumption reportedly increasing at a rate of from 10 to 12 per cent a year, special efforts will be necessary to achieve significant foreign exchange economies. On the other hand, present refining capacity, using imported crude petroleum, can now meet approximately 67 per cent of current consumption. There are at present seven refineries, producing a number of petroleum products, and two more are under construction. It is reported that the present daily capacity of these refineries totals approximately 96 thousand barrels a day. The refineries, with their daily production capacity are:

	<u>Barrels</u>
Cubatao	53,000
Capuava	20,000
Manguinhos	10,000
Ipiranga	6,000
Mataripe	6,000
Matarazzo	500
Riograndense	300
Total	<u>95,800</u>

Special privileges and facilities have been accorded Petrobras for the conduct of its operations. It has recently contracted with U.S. firms to carry on extensive geological studies. Petroleum is at present produced only in the Bahia fields. Recently the SUMOC approved a special

arrangement for Petrobras. This agency will receive in foreign exchange 80 per cent of any economies in foreign exchange resulting from its operations. The amount is to be no less than 3 per cent, and no more than 5 per cent, of export earnings, beginning January 1, 1955. The participation of foreign capital in the petroleum industry has been considered in the Congress, but so far has been denied.

(2) Agricultural production

The volume of agricultural production in 1954 showed a considerable increase over that of 1953. (See Table 13.) The index of per capita production also increased by 6.4 per cent in 1954 as compared with 1.7 per cent in 1953. In 1952 and 1953 Brazil's agricultural production had remained more or less stationary. Several factors contributed to the marked increase in 1954. The first was the July 1953 frost, which was followed by a rise in coffee prices; this led to more intensive new planting, including the planting of other crops, especially cereals, to compensate for the losses sustained in coffee production. The ~~new~~ exchange system, established in October 1953, gave exporters higher returns for export receipts and made Brazil's agricultural products more competitive abroad, particularly in the case of certain minor exports. Agricultural supplies were favored by being in lower import categories and later extended preferential exchange treatment in the form of separate auctions. Of estimated national income in 1954 of some Cr\$410 billion, agriculture is estimated to have accounted for an increased proportion, some 34 per cent, compared with 31.5 per cent in 1953 and with 30 per cent or less in previous postwar years. Credit to agriculture continued to increase in 1954, but the increase in agricultural credit in 1953 was of more importance for production in 1954. The increase in productivity was due to the cultivation of new land, total area planted increasing by 4.8 per cent, to mechanization, and to improved techniques. While the over-all area planted increased to some extent, productivity increased even more. This reflected the opening-up of new and richer land, and the rapidly increasing use of agricultural machinery and fertilizer. There was a substantial increase in the volume of production of such crops as cereals and other foodstuffs.

In 1954 the three principal export commodities, coffee, cotton, and cacao, registered increases in production. Recent coffee flowerings have been good, and it is expected that production in the crop year 1954-55 will exceed that of 1953-54. Cotton production increased last year to 1.3 million tons, well above the level of previous years. The new cacao crop which has just been harvested is estimated at 1.5 million bags, exceeding 1953 production.

Production data for domestically produced and consumed commodities are not available for the principal crops, which are maize, beans, and mandioca. However, data are available for the production of sugar, one of the principal crops. The record level of 40 million tons was attained in 1954, compared with 37 million tons in 1953.

The most important imported and domestic agricultural product is wheat. A considerable amount of wheat is imported, mostly from Argentina and other inconvertible currency areas. A concerted drive has been undertaken to reduce Brazil's dependence on imported wheat by fostering domestic production. Production has steadily increased in recent years. In 1954 it reached the all-time high of 790 thousand tons, compared with 772 thousand in 1953, the previous record level, and 449 thousand in 1949. For 1955, production is estimated at one million tons, which the wheat Expansion Service estimates will produce exchange economies of \$83 million. In spite of increasing domestic production, the disparities between domestic production and actual consumption needs continue to increase, because of population growth and improving standards of living. It is reported that climate and soil in Brazil are not generally favorable for wheat production, with the exception of certain areas. The dependence on wheat imports can be expected to continue. Most of the wheat is produced in the southernmost state of Rio Grande do Sul, and wheat production appears to have been expanded at the expense of an established livestock industry. With the preferential exchange treatment for wheat, there has been a rapid shift to white bread and a decline in the per capita consumption of corn meal and mandioca products. In 1954, with estimated millings of 500,000 tons of domestically produced wheat and 1,700,000 tons of imported wheat, total consumption of wheat could be estimated at 2.2 million metric tons. Negotiations have been proceeding between Brazil and the United States on a plan whereby the latter would provide some 200,000 tons out of surpluses.

(3) Business turnover

The index of the Conjuntura Economica for business turnover showed a moderate increase during the year, from 153 at the end of 1953 to 156 at the end of 1954. The components of the index include check clearings and business sales, and this is deflated by the general index of prices. The resulting index of business turnover, or better, the index of the value of transactions at constant prices, is adjusted for seasonal variations. The index showed a decline in the third quarter of 1954, paralleling the decline in industrial production previously reviewed. By the end of the year the index was again rising. The index showed a decline in January and February of 1955, reportedly as a result of the fall in coffee exports. The decline may also be due to the more stringent credit control policies which have been pursued in recent months.

(4) Building and construction

The best available index of building construction is that of the building area licensed in Rio de Janeiro and Sao Paulo. The index showed a significant decline in the area licensed, the annual average declining from 171 in 1953 to 139 in 1954. This is attributed primarily to the more stringent credit policies, particularly in the second half of the year, and to the stricter rediscounting policy, construction paper not having

been accepted by the Rediscount Department of the Bank of Brazil during the second half of 1954. The index covers only the area licensed and does not cover construction actually carried on. For construction actually completed, a better indication is the index of civil construction, which reflects the value of construction deflated by the general price index. The index shows that there was a decline in civil construction during the year, the annual average declining from 151 in 1953 to 144 in 1954. It is estimated that new construction has taken as much as 46 per cent of gross private investment in the last few years.

(5) Employment

No accurate data or estimates of employment and unemployment are available. There is only one index for employment, that for employment in the Federal District, and this showed a moderate decline in 1954. However, it is reported that employment dropped sharply about the middle of 1954 because of the circumstances previously described, i.e., the minimum wage, etc., and that unemployment at mid-year was at the highest point in three years. However, there was a rebound in July and toward the end of 1954 it is believed that unemployment was declining.

(6) Transportation and hydroelectric power

Transportation and, to a lesser extent, electric power continue to be the major bottlenecks for production and for the economy. No new significant bottlenecks developed during 1954. The electric power shortage was alleviated to a great extent during 1954, with the completion of new facilities for serving Sao Paulo and Rio de Janeiro. In the northeast the situation was greatly improved with the completion of the Paulo Afonso works on the Sao Francisco River. In 1953 there had been a very acute power shortage requiring drastic rationing of power. In 1954 rationing of electric power was to a large extent eliminated.

A federal law establishing an Electrification Fund, whose main source of revenue will be a special tax on electric power consumption, was passed in August 1954; under discussion in Congress there is a draft bill for the creation of "ELECTROBRAS", a mixed private-public corporation which will administer the Fund.

The transportation system, primarily the government-owned railways, is reported to have problems of administration and of obtaining replacement equipment. There also appears to be a problem with the rates which seem to be relatively low.

(7) Development

Some of the development plans, particularly those of the Bank for Economic Development, are aimed at ~~improving the~~ transportation system. Some development projects are carried on by the three levels of government. There has been a significant capital expansion by private enterprise, partly with new funds but primarily with the ploughing-back profits. During 1954 the Development Bank was not able to make as much progress as hoped for because funds fell short of expectations--both local funds and foreign exchange. The expected aid from the IBRD was not forthcoming.

During the five-year period 1952-56, it was estimated that the Development Bank would accumulate some Cr\$16 billion of funds, primarily from taxes, with which to carry on its lending operations. It now appears that somewhat less than that amount will be forthcoming. By the end of 1954 some Cr\$26 billion of loan requests had been filed with the Bank, and loans outstanding totaled Cr\$6.7 billion, as follows:

	<u>Cr\$ billion</u>
Railroads	4.9
Electric power	1.0
Other	<u>0.8</u>
Total	6.7

As for the private sector, the National Development Bank has also undertaken a series of studies on "import-substituting" industries such as iron and steel, cellulose, cement and heavy chemicals, mineral and petroleum industries. Investments would gradually increase from about \$169 million in 1955 to \$256 million in 1958.

## 2. Monetary developments

An attempt is made in Table G, derived from Tables 14 and 15, to show the over-all result of the complex number of financial transactions between the monetary authorities (Banco do Brasil, including the Rediscount Department, Superintendency of Currency and Credit, Banking Mobilization Fund, and the Treasury) and the commercial banks in Brazil with the three main sectors of the economy, the "Public Sector" (Federal, State, and local Governments and other official entities), the "Private Sector" (business and individuals), and the "Foreign Sector" (foreign assets and liabilities and other transactions related to international payments). Changes in the position of the consolidated net claims of the monetary authorities and commercial banks may be interpreted as a rough general indication of the role played by each of these sectors in the changes in the money supply.<sup>1/</sup> It should be observed that there is no clear-cut boundary between sectors, as some accounts may be classified under one sector or another depending on personal preference and purpose in mind. For example, exchange profits (agios minus bonuses) were included under "Foreign Sector," although they may as well be classified under "Public Sector" because in a broader sense they are a kind of tax.

During 1954 as a whole there was a monetary and credit expansion which was greater than in 1953. The money supply increased by 22 per cent, the largest expansion since 1950. This monetary expansion originated mainly from credits to the private sector, which increased by Cr\$33 billion in 1954, or by about 27 per cent of the money supply at the end of 1953. The expansionary impact of the public sector on the money supply was of roughly the same magnitude in 1953 and 1954, about 10 per cent, but while most of this pressure originated from the Federal Government in 1953, in 1954 it arose mainly from operations of the State Governments, chiefly of the State of Sao Paulo, and of other official entities. Since 1950 the foreign sector of the economy, i.e., transactions related to international payments, exerted contractionary impacts on the money supply. In 1954 this impact was stronger than in the preceding years, having determined a contraction of about 11 per

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<sup>1/</sup> This classification is based on the same criteria adopted by the Fund's Research Department in the compilation of country statistics in the International Financial Statistics.

cent, compared with 7.6 per cent and 4.5 per cent in 1952 and 1953 respectively. It should be noted, however, that the large contractionary monetary impact of the "Foreign Sector" in 1954 was only partly the result of the deficit in the balance of payments. To a large extent it reflects the contractionary effect of the exchange profits arising from the practice of selling exchange to importers at substantially more depreciated effective rates than the effective buying rates applied to exports. In fact, while the net change in the position of foreign assets and liabilities led to a contraction of Cr\$2 billion, the exchange profits exerted a contractionary impact of nearly Cr\$12 billion.

Table G. Creation of Money in Brazil: Changes in Selected Monetary Accounts Expressed as a Percentage of the Money Supply at the End of the Previous Period

Year	Increase of Decrease (-) in Banks' Net Claims on:						Total = change in money supply
	Public Sector			Private sector	Foreign sector	Other unclass.	
	Federal Government	Other	Total				
1951	( 1.7 )		1.7	23.9	-6.3	-3.6	15.7
1952	( 7.3 )		7.3	16.9	-7.6	-1.7	14.9
1953	7.7	2.5	10.2	18.0	-4.5	-4.4	19.2
1954	3.9	6.4	10.3	24.4	-11.2	-1.4	22.1
I Qtr.	1.3	0.2	1.5	4.2	-2.9	0.6	3.4
II Qtr.	-0.1	1.9	1.8	7.4	-4.1	-1.3	3.7
III Qtr.	-1.0	1.7	0.7	10.4	-3.8	0.2	7.5
IV Qtr.	3.3	2.1	5.4	1.3	--	-0.8	5.9
1955							
January							-0.5
February							1.4

Sources: Tables 14 and 15.

The strong monetary contraction originated from the "Foreign Sector" caused a decrease in the liquidity of the private business community, at a time when costs and prices were rising at a rapid pace and heavy pressures were brought to bear on the banking system for larger credit accommodation. This explains in part the acceleration in the rate of credit expansion to the private sector witnessed in 1954. It is noted, however, that the tendency of auction bids to increase, associated with the scarcity of exchange, in turn represented additional demand for bank credit on the part of the business community.

In the last quarter of 1954 and the first two months of 1955 there was a slowing down in the expansion of the money supply, associated almost entirely with a leveling off in commercial bank credit to the private sector. This trend appears to reflect the stricter credit control measures taken by the

MONetary authorities after August 1954. No data on commercial bank credit are yet available for 1955, but the decline in advances of the monetary authorities to the private banks suggests that the expansion of credit generated by these banks, if any, must be very modest. Conversely, credits extended to the Federal Government by the Bank of Brazil rose by 16 per cent in the last quarter of 1954, following declines of 1 per cent and 4 per cent in the second and third quarters of the year (see Table 16). Bank of Brazil credits to the State Governments and other official entities expanded throughout 1954 from Cr\$8.6 billion to Cr\$15.9 billion, or by 85 per cent. Thus, while the increase in net claims of banks on the "Private Sector," i.e., loans and investments net of non-monetary deposits, induced a monetary expansion of merely 1 per cent in the last quarter of 1954, compared with about 10 per cent in the previous quarter, the expansionary impact of the "Public Sector" increased from about 1 per cent to 5 per cent in that period.

Table 16 shows that Bank of Brazil credits to the public sector continued to expand in the first two months of 1955, but at a slightly lower rate than in the same period of 1954. Credits extended by the bank of Brazil to business and individuals increased at an accelerated rate in the first three quarters of 1954, but there was a marked slowing down in the last quarter of the year, and in the first two months of 1955 it actually declined slightly. The expansion in these credits for the whole year can be attributed to increases in various categories of loans as well as to the policy of financing coffee up to 100 per cent of the support prices

During the first half of 1954 it appears that little was done to contain the credit expansion. However, measures were taken in the second half of the year. These included: (1) Instruction 105 established maximum limits on the amount of interest the commercial banks could pay on deposits. It also prohibited special advantages given depositors. The objective of this instruction was to curb the undesirable competition among the banks to have the interest on deposits lower than the rediscount rate. (2) UMOC Instruction 106 of October 1954 revised the rediscount rate. This placed the rate at a higher level than that of interest on deposits. The principal increase in rediscount rates (different rates depending on the type of paper) was that for Duplicates (the principal type of trade collection), which was raised from 6 to 8 per cent. There was considerable opposition to this increase. There was also a tightening of rediscounting procedures which ~~were introduced in Spain in 1954. Further consideration attempt to induce this manner~~ rediscounts. (3) Instruction 108 of October 1954 provided for an increase in reserve requirements. The increase applied to all of a bank's deposits, sight and time, when the level of deposits exceeded the highest level of deposits reached at any time between January 1954 and the end of October 1954. There was a decline in deposits of the commercial banks of Cr\$1.0 billion in November, and another decline in deposits of Cr\$0.2 billion in December.

The effects on the commercial banks of the various credit measures, particularly the one increasing reserve requirements, are evidenced by the increase in deposits of these banks with the Bank of Brazil and the decrease in the outstanding balances of advances of the monetary authorities to the commercial banks. In the period August 1954-February 1955 commercial bank

There was an attempt to reduce the volume of

were not included in the instruction.

deposits with the Bank of Brazil increased from Cr\$11.7 billion to Cr\$13.7 billion, or by 17 per cent, while advances to commercial banks declined from Cr\$13.7 billion to Cr\$11.8 billion, or by 14 per cent, in the same six-month period. Two Sao Paulo banks which were heavily committed in real estate were allowed to close and runs on other banks were met by emergency measures on the part of the Bank of Brazil.

As evidenced in the above discussions, the primary responsibility for the credit expansion in recent months has been the Bank of Brazil and the "Public Sector." Thus, the effectiveness of the credit policy has considerably weakened, given the fact that these credits account for about one fourth of total bank credit operations.

The increment in banks' loans and investments in 1954 amounted to Cr\$86 billion, of which Cr\$69 billion, or 81 per cent of the total expansion, originated from the Bank of Brazil. For this massive credit expansion the Bank of Brazil made use of the exchange profits, some Cr\$12 billion, which are deposited in the Bank for the account of the Government, and intensified its rediscount operations with the Rediscount Department of the Bank. The recourse to rediscount operations by the Bank of Brazil amounted to Cr\$11.7 billion in 1954 (Cr\$3 billion in 1953), representing a similar expansion in currency issued, thereby increasing the liability of the Bank with its Rediscount Department to Cr\$21.9 billion.

There is some difficulty in implementing general credit controls because of the significant differences in the reserves position of the commercial banks, and because a large segment of the banking system traditionally has had recourse to rediscounting privileges as a regular procedure. In view of these circumstances, the general credit control of reserve requirements can only be used to a very limited extent. Wide differences exist in the reserves position of individual commercial banks, which are about 400. Some of the more conservative banks operate with considerable excess reserves, while the fringe banks, about a third of all banks but with perhaps less than 10 per cent of total commercial bank assets, operate on the basis of rediscounts. Before any more refined use of general credit controls could be effectively implemented, the position of the fringe banks would have to be normalized. The stricter rediscount policy pursued since last August has primarily affected the fringe banks. In view of the limitations of the general credit instrument of ~~reserve requirements~~, the expansion of commercial bank credit could to some extent be checked by working on the fringe banks. For the commercial banking system as a whole, the only way to prevent another upward rise in credit is to prevent any increase in liquidity, arising from an increase in net issue, i.e., the secondary expansion could only effectively be curbed by curbing the primary expansion. The only significant change in recent years has been the measure (shortly after SUMOC was established in 1945) of having the commercial banks deposit a part of the reserve requirements at the Bank of Brazil for account of SUMOC. Even this limited measure has been difficult to implement. It was with these difficulties in mind that the October 1954 increase in reserve requirements was approved, i.e., applying only if deposits increased. As to the other general credit control instrument, the rediscount rate, this would be difficult to apply in such a way as to effect the entire banking system. With the great

Differences in the use of rediscounting privileges, any increase in the re-discount rate would merely affect the fringe banks. The problem is complicated by the fact that many banks considered rediscounts a regular source of funds. Rediscounting is nevertheless not automatic. The limit on rediscounting (the amount of capital and reserves) of the commercial banking system as a whole is estimated at Cr\$15 billion. In March, 1955 rediscounts were Cr\$4.6 billion.

A recent study made by SUMOC indicates that more than one half of the rediscounts and other assistance was absorbed by 59 banks which accounted for less than 10 per cent of the total of loans and deposits of commercial banks, while 258 banks (more than half of all banks), accounting for more than 70 per cent of the value of loans and deposits, received only 9.6 per cent of this assistance.

Since 1945, the SUMOC has been the central banking agency charged with the responsibility of implementing controls over bank credit. In the meantime legislation has been considered in the Congress but has not yet been approved.

The original bank reform project of several years ago has been substantially modified, and, in the more recent version, a number of the principal points have been retained. The new project of law includes provision for a central bank law and a regular commercial banking law. It was proposed that a rural bank be included in the project, but the dominant opinion in the Congress appears to be that the inclusion of a rural bank would involve greater delay in the consideration of a banking law and that the subject should therefore be treated separately. The structure which is preferred for the central bank continues to be that of a Federal autarchy, with the capital owned by the state, and with appropriate administrative independence.

### 3. Prices and Wages

Prices rose considerably during 1954. The index of wholesale prices (see Table 17) registered an increase of 31 per cent in 1954 as compared with an increase of 15 per cent in 1953. The cost of living also rose, but not to the same extent as in 1953 or as wholesale prices. The index for the cost of living in Sao Paulo registered an increase of 17 per cent for 1954 as compared with an increase of 22 per cent in 1953. Taking a period of years, there appears to be a correlation between prices and the money supply, but the correlation is not as clear if only one year is considered, as in 1954, when the money supply rose more than prices. There appears to be a lag between the rise in the money supply and prices. The rise in prices in 1954 is associated with the increase in bank credit in 1953. The increase in the minimum wage law, effective July 1, 1954, can be expected to have an impact on prices well into 1955.

Wages also appear to have increased substantially. The best available index, that for wages in the Federal District, indicates that average wages increased by 12 per cent between June 1953 and June 1954, the last month for which data appears to be available. After June 1954, as a result of the increase in the minimum wage, wages appear to have risen substantially. An estimate that has been made on the basis of a sample study for the Federal District indicates that industrial wages rose by some 67 per cent in the period June-September 1954. It is believed that the implementation of the minimum wage law continued after September 1954 and that greater increases in wages may therefore have occurred.

The minimum wage, which was doubled, (from Cr\$1,200 to Cr\$2,400 per month) effective July 1, 1954, and the wage rises which appear to have followed, will result in increased production costs which will in turn exert an upward pressure on prices. The effect will be different for each industry. It is estimated that for the iron and steel industry, for instance, wage costs account for 25 per cent of total costs; in the textile industries 30 per cent and for industries as a whole approximately 50 per cent.

#### 4. Government finances

There has been more than a fourfold increase in federal, state and municipal government expenditures since the war. The growth of the budgets is explained in part by the inflationary trend and in part by the growing needs which the Government has sought to meet. This growth is indicated in Table 18 which provides budgetary results for all three levels of government.

During 1954 the condition of government finances was less favorable than in previous years. There was a federal budgetary deficit and an even greater nonbudgetary deficit for which the Federal Government is responsible. The finances of the State Governments were relatively less favorable than either federal or municipal finances. The finances of the federal-government-owned enterprises and of the State Governments continue to be the more serious problems.

The internal long-term public debt of the three levels of government is relatively modest. At the end of 1954 the total of this outstanding debt was approximately Cr\$30.0 billion for all three levels of government. The floating debt has been increasing rapidly in recent years and now exceeds the long-term debt.

The prospects for 1955 are not encouraging, primarily because of the deficit of some Cr\$14.6 billion which is expected in federal finances, the deficits of the budgets of the State Governments being estimated at Cr\$4.1 billion. These estimates for 1955 are as follows:

	Receipts	Expenditures	Balance
	(In billions of cruzeiros)		
Federal Governments	53.5	68.1	-14.6
State Governments	37.5	41.6	-4.1
Municipal Governments	10.2	10.3	-0.1

(1) Federal budget

The federal budget has grown very rapidly in recent years. To some extent this has resulted from higher costs, the result of inflation, and the Government has been called on to meet increasing needs. In recent years the budget has usually shown a deficit. Considerable progress in balancing the budget has made in 1951 and 1952, there being surpluses in each of those years. The rapid growth of the federal budget and the percentage increases from year to year are shown in Table II.

Table II. Brazil: Actual Federal Budgetary Receipts and Expenditures  
(In billions of cruzeiros)

	Revenues	Per cent increase	Expenditures	Per cent increase	Balance
1950	19.4	18.4	23.7	14.5	-4.3
1951	27.4	41.2	24.6	3.8	2.8
1952	30.7	12.0	28.5	15.8	2.2
1953	37.0	20.5	39.9	40.0	-2.9
1954	46.5	25.7	49.3	23.6	-2.8
1955	53.8 ✓	15.7	56.7 ✓	15.0	-3.2

✓ Budget estimate.

Budgetary deficits have been financed primarily by Bank of Brazil credit, in the absence of a well organized market for government obligations. These borrowings have been a factor of inflation. The federal internal long-term debt is modest in proportion, the total outstanding at the end of 1954 being equivalent to only 23 per cent of budgetary revenues in that year. The Federal internal floating debt was approximately twice that amount at the end of 1953.

(a) The 1954 budget

The 1954 budget was approved, with receipts and expenditures of Cr\$46.0 billion and Cr\$45.1 billion, respectively, the surplus being Cr\$0.9 billion. With additional credits authorized in previous years and during 1954, actual budgetary expenditures of Cr\$49.3 billion were in excess of budget estimates and 23 per cent over 1953. Actual revenues of Cr\$46.5 billion were only slightly higher than estimates. Therefore, the actual budgetary deficit for the year appears to have been Cr\$2.8 billion ~~excess~~. The variations may be shown as follows:

	Budget estimate	Actual	Variation
(In billions of cruzeiros)			
Revenues	46.0	46.5	0.5
Expenditures	45.1	49.3	4.2
Balance	0.9	-2.8	

The above data were on an accounting basis. On a cash basis, the deficit would be somewhat greater. If extrabudgetary operations are included, i.e., the deficits of the government-owned enterprises, then the deficit of federal finances in 1954 was Cr66.1 billion, or somewhat more than the similarly computed deficit of Cr55.3 billion for 1953.

Because of the additional credits which are approved during the course of the year, Federal budgetary expenditures are regularly in excess of approved budget estimates:

(in billions of cruzeiros)

	Authorized			Exceeded		
	Budget	Additional Credit	TOTAL	Budget	Additional Credit	TOTAL
1952	25.4	1.1	26.6	27.0	1.4	28.5
1953	34.0	1.3	35.3	36.5	1.4	37.9
1954	45.1	4.3	49.4	47.2	2.1	49.3

The 1954 deficit in federal finances was financed exclusively by Bank of Brazil credit and an increase in accounts payable. The latter increased from Cr64.7 billion at the end of 1953 to Cr66.6 billion at the end of 1954.

The Federal budget is financed in the first instance by regular budgetary revenues, by Bank of Brazil credit, and, to a very minor extent, by the sale of government securities. Insofar as government obligations are concerned, there has been no long-term paper sold since 1948. In recent years only short-term paper has been issued and this only in limited amounts. Taxation and Bank of Brazil credit, therefore, continue to constitute the source of the Federal revenues.

For some years the Government has experimented with Treasury bills (Letras de Tesouro), at times on a compulsory basis. An example of such an operation was the procedure adopted several years ago whereby exporters were required to invest in Treasury notes up to 20 per cent of their export proceeds. At other times, the Government has sought to sell Treasury notes with the help of special features. In 1954, for instance, it sold Treasury notes with interest payable in U.S. dollars. Only some Cr3.2 billion of these were issued, and they were redeemed before the end of the year.

The government-owned enterprises which regularly show deficits are primarily the government-owned railroads. The federal budget regularly includes an appropriation of some Cr3 billion each year to assist these enterprises, but in spite of this there are usually deficits.

#### (b) The 1955 budget

The Executive Branch had hoped to achieve a greater degree of balance in federal finances during 1955. For this purpose a number of tax proposals were sent to the Congress. Only a few of these were, however, approved. The Congress finally approved the budget with receipts and expenditures of Cr53.8 billion and Cr56.7 billion, respectively, leaving a deficit of Cr3.2 billion.

Some of the tax recommendations proposed by Dr. Gudin and sent to the Congress included the following:

(i) An increase from 8 to 10 per cent in the remittance tax on foreign exchange payments, with some exceptions (wheat, oil imports, etc.). This was approved. The estimated increase in revenue was Cr\$0.5 billion.

(ii) On the income tax, sundry changes were made and accepted. This will provide an estimated Cr\$2.0 billion of additional revenues.

Included in these changes was an increase in the tax on bearer shares from 20 to 25 per cent. This is discounted at source. The tax increase is applicable for the two-year period 1955-56.

(iii) A sales tax on luxury goods. This was not accepted. It would have yielded some Cr\$3.0 billion of additional revenues. If this is approved this year, it will be included in the 1956 budget.

(iv) More recently a project was sent to the Congress providing for an excess profits tax. This may be approved and, in such an event, it would be applicable next year.

(v) There is also a project of law providing for a general tariff increase. The present tariff is on a specific basis, and the project would provide for a sharp increase and on an ad valorem basis. In the event of approval of this tariff increase, together with a modification of the exchange system, it is noted that the revenues would go directly to the Federal Government, whereas the revenues from the exchange system are now paid into a separate account at the Bank of Brazil.

The Executive Branch has also studied ways and means of improving the financial situation of the government-owned railroads which account for about three quarters of the nonbudgetary deficits which the Federal Government is called upon to absorb. There has been discussion in the Congress on the possibility of allowing private capital to participate in the operation of the railroads through mixed companies, with government and private capital.

The technicians of the Superintendency of Money and Credit have estimated that the deficit in federal finances in 1955 will total Cr\$15 billion. This would include the following:

	<u>Cr\$ billion</u>
Approved budgetary deficit	3
Overestimate of receipts	3
Due from Federal District	1
Expected bonus for federal employees	5
Deficit of autonomous agencies	<u>3</u>
Total	15

In an effort to reduce the expected deficit, the Executive Branch has approved an economy plan whereby the respective ministries would only spend up to 70 per cent of their appropriation. While it is doubtful that such economies can be achieved, the technicians of the Superintendency believe that economies of Cr\$7 billion may be achieved.

## (2) State finances

Most of the budgets of the State Governments have regularly shown deficits. The largest deficit by far has been that of the State of Sao Paulo, particularly during the last five years. The deficits in 1952-54 were such as to constitute an important inflationary factor.

Table I. Actual Budget Data for States and Federal District  
(In billions of cruzeiros)

	Revenues	Expenditures	Balance
1950	16.4	18.5	-2.2
1951	22.9	24.4	-1.4
1952	25.1	30.8	-5.7
1953	30.5	35.9	-5.4
1954 (Budget estimate)	34.0	38.5	-4.5

## (a) The finances of the State of Sao Paulo

The growth of the budget of the State of Sao Paulo has been marked in the last few years. The sharp increase is, to some extent, explained by the very rapid growth of the Sao Paulo economy. To some extent the finances of Sao Paulo improved during 1954, but there was nevertheless a substantial deficit which accounted for the bulk of the total of deficits of all State Governments. Budgetary results in Sao Paulo have been as follows in recent years:

Table J. Actual Budgetary Data for Sao Paulo, 1946-55  
(In billions of cruzeiros)

	Receipts	Expenditures	Balance
1946	3.1	3.2	-0.1
1948	3.8	4.6	-0.8
1950	6.0	7.8	-1.8
1952	9.9	14.3	-4.5
1953	11.9	16.6	-4.7
1954 (Estimated)	14.5	18.3	-3.8
1955 (Budget estimate)	19.3	19.9	-0.6

It is expected that the deficit for this year will be such larger than the one given above, which is the budget estimate. It appears that the Sao Paulo authorities have based their revenue estimates to a large extent on the expected upward trend of prices. Secondly, it can be expected that there will be a rise of about Cr\$2 billion in the salaries of state government employees; this has not been provided for in the budget.

To meet its deficit, the State of Sao Paulo has sold its own obligations and also drawn on the Bank of Brazil. In recent years it has issued rotating bonds (Bonos Rotativos). These instruments were first issued in the early 1930's. They are short-term, tax anticipation notes, usually issued in twelve series with monthly maturities. More recently, the bonds have been used in payment of state taxes. These bonds were issued in excess of limits, but because of efficient servicing they were popular and there was a market for them. In 1952, as a result of the deficits, the amount of rotating bonds exceeded the limit of 25 per cent of expected revenues. The balances of rotating bonds outstanding has been as follows:

End of	Cr\$ billion
1951	4.9
1952	8.6
1953	8.0
1954	4.2

By August 1953 the rotating bonds reached a total of Cr\$11.7 billion. At that stage special measures were taken, in concert with the Federal Government and the Bank of Brazil, and the amount of these bonds was gradually reduced. Because of other borrowings, the floating debt of the State of Sao Paulo has increased, from Cr\$21.8 billion at the end of 1953 to Cr\$27.0 billion at the end of 1954, as follows:

End of year floating debt in Million cruzeiros:

	1953	1954
Rotating bills	8,047	4,208
Treasury notes	2,375	3,368
Deposits	995	599
Outstanding accounts	7,653	11,444
Bank of Brazil loans	2,330	5,948
State Bank loans	1,018	1,448
	21,818	26,975

(3) Public internal debt

The public internal long-term debt is relatively small in Brazil, totaling Cr\$30 billion at the end of 1953, or some 30 per cent of estimated national income. However, the floating debt of some Cr\$30 billion is now considerably in excess of the long-term debt.

(a) The public long-term debt is represented by bonds of the three levels of government, as shown in Table K.

Table K. Public, Internal, Long-term Debt

(In billions of cruzeiros)

	Federal	States	Municipalities	Total
1947	10.1	7.9	0.6	18.6
1948	10.4	8.5	0.6	19.5
1949	10.4	11.8	0.9	23.2
1950	10.4	12.4	1.0	23.9
1951	10.4	14.3	2.3	27.0
1952	10.5	14.9	2.4	27.8
1953	10.5	19.2	n.s.	
1954	10.5	16.0	3.5	30.0

Sources: Anuario Estatístico do Brasil; Conjuntura Econômica, January 1955.

The inflationary conditions have been one of the factors in the Government's inability to establish a market for its obligations. As shown in the previous table there was no important change in the total. The State and Municipal Governments did issue a relatively small amount of new securities. At the end of the year the total consolidated debt was Cr\$30 billion of the Federal, State and Municipal governments accounting for 35 per cent, 53 per cent and 12 per cent respectively.

The Federal debt remained at the same level, Cr\$10.5 billion, a little less than half of this having been issued during World War II. This debt has not increased because the Federal government has been able to borrow elsewhere. The law provides that it can borrow up to 20 per cent of estimated budget receipts. These latter operations are effected through the Bank of Brazil, resulting in new note issues furnished by the government itself, which because of legal provisions cannot dispose of the money directly. Periodically responsibility for the new note issues are then assumed by the Federal government.

In the case of the State and Municipal governments, the situation is different since these do not have the borrowing facilities of the Federal government, previously mentioned. They therefore have issued medium and long-term bonds. The debt of the State governments therefore increased from Cr\$9 billion in 1948 to Cr\$16 billion in 1954, an increase of 78 per cent.

The same situation has prevailed in the case of the Municipal governments. These have issued bonds which are usually taken up by the Federal Savings Banks. The debt of the Municipal governments increased from Cr\$0.6 billion in 1948 to Cr\$3 billion at the end of 1954.

(b) The floating debt. The short-term of floating debt is considerably larger than the long-term debt. At the end of 1953 the floating debt totalled Cr\$58.1 billion, of which Cr\$21.7 was accounted for by the Federal government, Cr\$18.0 by the State of Sao Paulo and the balance of Cr\$18.4 billion by the other states and the Federal District. The accounts payable alone (reserva passiva) totalled Cr\$17.1 billion.

There appears to have been a decrease in 1954. At the end of the first half of 1954 the debt of the State of Sao Paulo had risen to Cr\$26 billion, or Cr\$8 billion more than in 1953, even though the rotating bonds were reduced by Cr\$3 billion. As for the Federal government, in spite of the large amount of accounts payable transferred to 1954, the floating debt decreased. It is therefore estimated that the floating debt of the Federal, State and Federal District governments totalled approximately Cr\$50 billion at the end of 1954, or about Cr\$8 billion less than at the end of 1953.

Table L . Internal Floating Debt

(In billions of cruzeiros)

	Total	Federal Gov't	State Gov'ts and Federal District
1940	7.3	2.8	4.5
1947	14.5	7.2	7.3
1953	58.1	21.7	36.4
1954	50.0	n.a.	n.a.

Sources: Anuario Estatístico do Brasil, 1954; Conjuntura Econômica, February, 1955.

The authorities are still concerned with the possibility of improving the market for government obligations. The Federal government has studied the possibility of raising funds through new issues of short-term Treasury bills. To this end, the Executive Branch has submitted a bill to the Congress, which would provide for issuing Treasury bills with a permanent limit of Cr\$10 billion. The bills would mature within any period between 60 days and three years, and the Rediscunt Department of the Bank of Brazil would be permitted to advance against them, subject to the approval of CUMOC.

### III. Changes in the Restrictive System

#### 1. Description

At the time of the conclusion of the 1953 Consultations (October 1953) with Brazil the auction system for import payments and the fixed bonuses for export receipts, involving considerable changes in the whole restrictive system, had just been introduced. Little information was available at that time as to the features and the functioning of this new system. During the following months various changes were introduced in the system on different occasions and regulations were issued for their implementation. A staff group visited Brazil in February 1954 and secured information on the functioning of the system and its main features, some of them resulting from the changes introduced in the intervening period since October 1953. The staff gave an up-to-date description of the system in its report (DM/54/30, May 21, 1954). The following is a description of the changes which have been introduced in the system since the time of the staff group's report.

Generally speaking, the changes involve:

- a) Increases in export rates, with the introduction of an element of currency discrimination, and differentiation of export categories;
- b) The introduction of new features in the import side of the system;
- c) Establishment of new minimum bids for the import categories and of new fixed surcharges for specific payments;
- d) Reclassification of import commodities;
- e) Increase in the number of cities where auctions of exchange certificates are held;
- f) Other changes in exchange practices, including changes in prescription of currency.
- g) Conclusion of new trade and payments agreements, and changes in the application of the existing ones.

1. The continuous increases in domestic money costs of Brazilian products and the decline in foreign prices of certain exports have induced the authorities to take measures to increase the effective rates for exports on various occasions. These measures involved a temporary linking of the rates with the free market before reverting to fixed bonuses.

When the new exchange system was introduced in October 1953, two effective export rates were established, resulting from a bonus of Cr\$5.00 per US\$1 for exchange proceeds of coffee exports and a bonus of Cr\$10.00 per US\$1 for exchange proceeds of all other exports. This arrangement remained in effect until August 13, 1954.

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Starting August 14, 1954 the two bonuses indicated above, and thus the effective rates of Cr\$23.36 and Cr\$28.36 per US\$1, were applied to 80 per cent of export receipts. (Instruction 99 of SUMOC) For 20 per cent of export receipts, the equivalent of the free market rate of the previous day applied. At this stage the Bank of Brazil modified its table of free rates (telegraphed to its agencies for the purpose of calculating the export rates), i.e., for the currencies quoted in the free market, the rates were those prevailing in the free market in Rio de Janeiro; for the Argentine agreement dollar, the exchange rate was established at the same level as that for the U.S. dollar, pursuant to an agreement with Argentina; for payment agreement dollars other than for Argentine agreement dollars, the free market rate was established at the equivalent of the U.S. dollar free rate, less 10 per cent, on August 20, 1954; for the Icelandic pound, the rate quoted by the Bank of Brazil was approximately equivalent to the above-mentioned rate for agreement dollars, on the basis of the par value of Icelandic L1 = \$2.80. Shortly after Instruction 99, on September 18, 1954, and to insure more stability, the average free market rate for the previous week was taken by the Bank of Brazil in computing the mixed export rates. This average was telegraphed to all branches. The quotations were obtained by the Bank of Brazil from the banks. This arrangement was changed on November 12, 1954. (Instruction 109 of SUMOC) On that date the Brazilian authorities fixed the effective rate for coffee exports for all currencies. For other export products, the link to the free market rate was maintained. The official reason given for the change from a fluctuating effective rate to a fixed one for coffee was that the fluctuations of the free market rate affected "the stability of coffee prices abroad". The new fixed effective rates resulted from the establishment of fixed export bonuses. The bonuses were different for the various currencies with broken cross rates. In establishing the fixed bonuses, the authorities sought to establish effective export rates which would 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 with the 20 per cent link with the free market. In other words, on November 12, 1954 the relative positions of the various currencies were frozen (approximately, some slight adjustments having been made). Since on the free market the dollar and convertible currencies <sup>1/</sup> were the most appreciated, the bonus for dollar coffee exports was the largest, i.e., Cr\$13.14 per dollar. This resulted in an effective rate of Cr\$31.50 per US\$1, which compares with the rate of Cr\$31.76 of the previous week. Sterling was the second most appreciated currency in the free market and received the same bonus as the U.S. dollar, and thus the exchange rate of Cr\$31.50. (The effective rate during the previous week was Cr\$31.39.) For payment agreement dollars and other currencies, the bonus reflected the previous arrangement. 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 rate for payment agreement dollars. These relative positions, as well as the positions of other non-convertible currencies, were maintained under the November 12 changes. The following table gives the free market rates used by the Bank of Brazil as of November 6, 1954, or shortly prior to the freezing of the rates on November 12, 1954:

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<sup>1/</sup> Swiss francs and Portuguese escudos.

Table M. Free Market Rates Effective on November 6, 1954  
and of their Dollar Equivalent on the Basis  
of the Relative Par Values

Currency unit	Cruzeiros	
U.S. dollar	65.34	
Swiss franc	15.11	(64.67)
Belgian franc	1.165	(58.25)
French franc	0.167	(58.45)
Danish crown	8.435	(58.28)
Swedish crown	11.373	(58.80)
Pound sterling	176.39	(63.00)
Argentine agreement dollar	65.34	
Agreement dollars	58.80	
Icelandic pound	164.64	(58.80)

The following were the bonuses established on November 12, 1954, for the various currencies:

	Bonus	Equivalent in U.S. dollars	Effective rate
(Cruzeiros per unit of foreign currency)			
U.S. dollar	13.14	13.14	31.50
Pound sterling	36.792	13.14	<del>31.50</del> 31.50
Swiss franc	3.064	13.11	31.47
Belgian franc	0.235	11.75	30.11
French franc	0.0338	11.83	30.19
Danish crown	1.7014	11.75	30.11
Swedish crown	2.294	11.87	30.23
Agreement dollar	11.86	11.86	30.22
Icelandic pound	33.208	11.86	30.22

The mixing arrangement continued to be effective for exports other than coffee exports, and in the calculation of these effective export rates the Bank of Brazil continued to establish weekly the free market rates as described earlier.

The next major change in export rates was introduced on January 17, 1955. Under SUMOC Instruction 112, four categories of exports were set up, with different sets of two bonuses for each category. For coffee, the bonus established on November 12, 1954, for convertible currencies was maintained. The bonuses for other currencies were unified at the level of the bonus for agreement dollars, so that the position of certain other nonconvertible currencies, such as the Belgian franc, was improved, in the sense that exports to the respective countries were facilitated. In the case of the other categories of exports, there were similarly two bonuses, one for convertible currencies and pounds sterling, and one for other currencies,

with a difference or discrimination of approximately 4 per cent, as in the case of the rate for coffee exports. This change in the method of fixing effective rates for exports other than coffee exports did not involve any significant change in the relative position of the various currencies, except for (1) the Argentine agreement dollar, which no longer received the same treatment as the U.S. dollar, and (2) other nonconvertible currencies, e.g., the Belgian franc, the Danish crown, the relative position of which was slightly improved, in the sense that exports to the respective countries were facilitated. This may be seen from the following table, which includes the rates communicated on January 15, 1955, by the Bank of Brazil to its branches, to be used in computing the local currency proceeds for 20 per cent of exchange receipts from exports.

Table N. Free Market Rates Effective on January 15, 1955, and of their Dollar Equivalent on the Basis of the Relative Par Values

Currency unit	Cruzeiros	
U.S. dollar	74.38	
Pound sterling	201.43	(71.93)
Swiss franc	17.38	(74.39)
Belgian franc	1.326	(66.30)
French franc	0.191	(66.85)
Danish crown	9.603	(66.32)
Swedish crown	12.947	(66.97)
Argentine agreement dollar	74.38	
Other agreement dollars	66.94	
Icelandic pound	187.43	(66.94)

The level of the effective rate for the new Category II exports was approximately the same as that prevailing a few days earlier for the former all-inclusive Category II. The new Cr\$37.06 rate for convertible currencies and pounds sterling, compared with the former rate of Cr\$37.57 for the U.S. dollar and Cr\$37.08 for the pound sterling. The new Cr\$35.55 rate for other currencies compared with the former rate of Cr\$36.08 for agreement dollars. The new commodity classification is indicated below, together with the table of effective rates and bonuses. This table shows also the difference between the two rates in each category in absolute value, and as a percentage in terms of the effective rate for convertible currencies. The same differences (i.e., absolute and percentage) are calculated for the bonuses, which constitute a component of the effective rate.

Category I: Coffee

Category II: Raw cotton, sawn pine wood, cocoa, carnauba wax, Brazil nuts, leaf tobacco, and bananas.

1/ After the return of the staff group to Washington, cotton was shifted from export Category II to Category III (Instruction 115 of SUMOC, dated May 4, 1955).

Category III: Piassava, castor seeds, soya beans, hides and skins, sisal, cocoa cake and paste.

Category IV: Other products not included in the first three categories.

Table O. Effective Rates for Exports in Brazil, (January 17, 1955)

Category	Effective Rates		Per cent Difference	Absolute difference between \$-L and others	Bonuses		Per cent Difference
	\$-L	Others			\$-L	Others	
I	31.50	30.22	4.06	1.28	13.14	11.86	9.74
II	37.06	35.55	4.07	1.51	18.70	17.19	8.07
III	43.06	41.31	4.06	1.75	24.70	22.95	7.08
IV	50.06	48.03	4.06	2.03	31.70	29.67	6.40

The most recent change in effective export rates was introduced on February 7, 1955 (Instruction 114), when coffee export proceeds were given the same bonuses as Category II exports.

To sum up, during the period under consideration, February 1954 to the present, the changes introduced on different occasions in the effective exchange rates for exports have meant a gradual and selective devaluation of the cruzeiro. Orderly cross rates were maintained until August 1954. Since then, broken cross rates have prevailed through various arrangements; from August to November 1954, through the operation of the free market arrangement for all exports; from November 1954 to January 1955 through the coexistence of fixed rates for coffee exports and the continuation of the free market arrangement for other exports; since January 1955 through fixed differential bonuses for all exports. These changes are summarized in Table P.

2. The introduction of new special features on the import side of the exchange system consists mostly of special auctions for specified products. On March 11, 1954, the Superintendency of Money and Credit announced (Instruction 86) that special auctions for foreign exchange for the importation of specified capital goods, livestock, and materials of Categories I and II for use exclusively in agriculture would be conducted twice a month. Since April 26, 1954, however, these special auctions have been held weekly. The minimum bids are the same as in the regular auctions. The amounts of foreign exchange offered for auction are determined each week by the Foreign Trade Department of the Bank of Brazil (CACEX) within the total exchange availabilities which are established by the Exchange Department of the Bank of Brazil.

The difficulties in controlling the end use of the imported products, especially in the case of capital goods, such as motors, and of chemical

Table F. Brazil: Bonuses and Effective Rates in Cruzeiros per US\$1

Date	Regulations relating to rate for:		Remarks
	Coffee	Other exports	
Until (1)			(4)
Aug. 13 1954	5.00 bonus	10.00 bonus	23.36 28.36
From Aug. 14 1954 to Nov. 11 1954	5.00 bonus on 80 per cent of export receipts. Remaining 20 per cent liquidated at the equivalent of free market rate.	10.00 bonus on 80 per cent of export receipts. Remaining 20 per cent liquidated at the equivalent of free market rate.	Orderly cross rates maintained only between U.S. dollar and Argentine agreement dollar; as well as among other agreement dollars. Other cross rates depending on free market quotation. "Free market" rate for agreement dollars established at free market rate for dollar less 10 per cent.
From Nov. 12 1954 to Jan. 16 1955	13.14 bonus for receipts in U.S. dollar and pound sterling. Other bonuses ranging from 13.11 to 11.75.	Fluctuating from 31.50 for receipts in U.S. dollar and pound sterling. Other rates ranging from 31.47 and 30.11.	Same arrangement as above for exchange receipts from exports other than coffee. For coffee orderly cross rate maintained between U.S. dollar and pound sterling and among agreement dollars.
From Jan. 17 1955 to Feb. 6 1955	13.14 bonus for convertible currencies and pound sterling; 11.86 bonus for all other currencies	31.50 for receipts in convertible currencies and pounds sterling; 30.22 for all other currencies.	Orderly cross rates maintained only between convertible currencies and pounds sterling and among all other currencies.
From Feb. 7 1955	18.70 bonuses for convertible currencies and pound sterling; 17.19 bonus for all other currencies.	37.06 for convertible currencies and pound sterling; 35.55 for all other currencies.	The same as above.

Ctg. II: 37.06 and 35.55  
 Ctg. III: 43.06 and 41.31  
 Ctg. IV: 50.06 and 48.03

products which can be used in a number of activities, have recently induced the authorities to limit these auctions basically to imports of fertilizers and insecticides.

These special auctions have been motivated by economic considerations as well as by political considerations. From the economic point of view, the main consideration has been to protect agriculture and related activities. Actually, if the commodities which are involved in these auctions were included in the general auctions, they would hardly be imported because, considering the relatively low demand prices of the final users, the potential importers would be outbid by importers of other goods fetching higher prices. From a political point of view, the arrangement in question represents one way of giving a little compensation to coffee producers (who are users of fertilizers and insecticides) for the comparatively unfavorable treatment that they receive for their exports, in the form of more appreciated effective import rates. In fact, the auction premia for these imports have been significantly below the premia prevailing in the general auctions.

In addition to the auctions described above, which have become a normal feature of the system for imports, the authorities have occasionally announced special auctions for a limited number of specific products to be imported from various countries. Each of these auctions had its own specific motivation which will be indicated in the brief description below.

On April 5 and April 8, 1954, 6 million Argentine agreement dollars were offered for Category IV and V fresh fruit imports from Argentina, with a fixed surcharge of Cr\$10 per unit of foreign currency for both categories. These auctions were held occasionally at later dates, the fixed surcharge being the lowest minimum bid prevailing at the time for all categories. The authorities have indicated that the reason why these auctions are held is to dispose of the exchange obtained from exports of Brazilian goods, including bananas and others, to Argentina, pursuant to an understanding with that country.

On May 12, 1954, the Exchange Department of the Bank of Brazil announced that on May 28 an amount of 10.8 million Swiss francs would be offered for auction for imports from Switzerland of Swiss goods classified in the first four categories. The minimum bids were the same as in the regular auctions. Similar auctions were held in each subsequent week until a total of 64.5 million Swiss francs was reached. These auctions were held in connection with a scheme, approved by the Superintendency of Money and Credit, to finance imports from Switzerland, with the object of obtaining funds for the setting up of three agricultural colonies in Brazil, in accordance with the National Colonization Plan.

Beginning August 27, 1954, three weekly auctions were held of Argentine agreement dollars for the importation of potatoes from Argentina. The amount offered at each auction was established at 200,000 payment agreement "dollars," and the minimum bid was that of Category V, in which the commodity is classified. These auctions were motivated by the need to secure an adequate supply of that commodity for Brazil.

Finally, to secure an adequate supply of Christmas goods, on October 29, 1954, a special auction was held for the importation of five types of dried fruits from Portugal. The amount offered was established at 600,000 Portuguese agreement dollars.

3. On various occasions the authorities have either changed the minimum bids for the five categories of imports or changed the fixed surcharges for other specified current payments. Also, fixed surcharges for specified occasional payments were periodically established.

There were two main reasons for the increases in minimum bids and fixed surcharges. On the one hand, it has been a purpose to avoid losses (and possibly to raise revenue) in local currency from the operation of the exchange system. On the other hand, the authorities have aimed at bringing the local price of certain imported goods, subject to fixed surcharges, more into line with other domestic prices.

Thus, minimum bids were first increased by 50 per cent on September 16, 1954 (after the increase in bonuses for exports in August 1954), for the five categories (Instruction 103). On March 23, 1955, they were again increased, by another 50 per cent of the original amount, after the increases in export bonuses in January and February 1955. The various levels of the minimum bids at various times are indicated in the following table, for the U.S. dollar only. The levels for other currencies are determined on the basis of the relative par values.

Table Q. Minimum Bids for the U.S. Dollar

(In cruzeiros per US\$1)

Category	Oct. 9, 1953	Sept. 16, 1954	<del>Mar. 23, 1955</del>
	to Sept. 15, 1954	to Mar. 22, 1955	<del>Mar. 23, 1955</del> <i>Mar. 23, 1955</i> onward
I	10	15	20
II	12	18	24
III	15	23	31
IV	<del>20</del>	30	40
V	50	75	100

The changes introduced in fixed surcharges depended on several factors. In the case of government imports classified in Category I and Category II, the fixed surcharges are the same as the respective minimum bids, and thus have changed with the latter, as indicated in the preceding table. In the case of other payments, which are subject to a surcharge designated as the "cost of exchange," the changes have been made in conjunction with changes in the bonuses paid to exports (the cost of exchange). These payments are: government payments other than those for imports; transfers abroad through the official market of registered loans or capital and income therefrom,

according to the law and regulations; payments for imports of books, maps, newspapers, magazines. The "cost of exchange," and thus the fixed surcharge for those payments, was Cr\$7.00 per US\$1 from October 1953 to August 13, 1954, Cr\$15.00 per US\$1 from August 14, 1954 to March 18, 1955, and Cr\$25.00 since March 19, 1955.

The changes in the fixed surcharges for petroleum products have been set for each semester. The purpose of bringing the domestic price of such products in line with other domestic prices is most apparent in the changes introduced for the first semester of 1955. The surcharges effective during the first semester of 1954 were Cr\$7.00 and Cr\$12.00 per US\$1 for petroleum products of Category I and Category II, respectively. For the second semester of 1954, the surcharges were fixed at Cr\$10.00 and Cr\$15.00 per US\$1 for the two indicated categories, respectively. On March 6, 1955, the fixed surcharges applicable during the first semester of 1955 were established at the levels indicated below:

	<u>Cruzeiros</u>
<u>Category I</u>	
Diesel oil )	
Fuel oil )	15.00
Gas oil )	
Aviation oil	25.00
Kerosene )	
Signal oil )	35.00
Crude oil )	
<u>Category II</u>	
Liquid gas	15.00
Lubricating oil	35.00
Common gasoline	70.00
"Premium" gasoline	150.00

It should be noted in this connection that to avoid unduly high profits or losses for the domestic firms which process petroleum products of Category I to produce products of Category II, the rule has been established that for the cases in which such processing takes place an internal tax (or subsidy) is applied to the finished product so that the total taxation (surcharge plus tax or minus subsidy) is equal to the surcharge applied to the imports of similar Category II products. For instance, in the case of gasoline produced in Brazil out of imported crude oil (for which a surcharge of Cr\$35.00 per US\$1 is paid in connection with the importation) a tax equivalent to Cr\$35.00 per US\$1 is applied to the finished product. Similarly, a reimbursement of part of the surcharge is effected for those domestically produced Category II products which derive from an imported Category I product and which, if imported, would be subject to a surcharge lower than that which was applied to the imported Category I product that was used as raw material.

Another change in fixed surcharges affected the payments for banking services connected with imports: the surcharge in this case was raised from Cr\$12.00 to Cr\$18.00 per US\$1.

A new surcharge of Cr\$40.00 per US\$1 was introduced for the remittance abroad of funds which have been used to finance imports of equipment by Brazilian firms (see 6.e) below).

Finally, on various occasions, upon the request of importing firms, different fixed surcharges were established by the Superintendency of Money and Credit in connection with payments for imports of rubber, electrical and transportation material and for remittances in favor of foreign artists working in Brazil.

4. The authorities consider the reclassification of the import commodities effected on March 20, 1954 to be satisfactory in the sense that, coupled with the allocation of exchange among the five categories, it appears to accomplish the objectives of giving what they consider is desirable protection to certain activities and of allocating exchange according to what are considered the different degrees of essentiality. Minor changes have been introduced in that reclassification at various times, most of them consisting of shifting one or a few commodities from one category to another (see Instructions Nos. 93, 94, 97, 107, 110 and 111). The protective purpose is apparent in the shift of white Portland cement to Category 5 (Instruction 94) and of penicillin from Category 1 to Category 3 (Instruction 111). An adjustment to satisfy better essential requirements appears to be the shift of natural rubber from Category 4 to Category 1 (Instruction 110).

Finally, a few additions were made in August 1954 to the list of import commodities for which exchange certificates are obtained in the special auction for materials to be used in agriculture.

5. The concentration of exchange operations in a small number of cities created some practical difficulties for importers located in various areas of the country. The authorities have, therefore, decided to gradually increase the number of cities in which auctions are held from 10 to 18 at present. This change has involved, among other things, a reallocation of total exchange available for auction among the various cities, and has also involved, in all likelihood, an increase in the number of effective rates during the same day, in the country.

6. Other changes were introduced in the Brazilian exchange system during the period under consideration.

a) With regard to the exchange rate system, a change was introduced on January 1, 1955, by increasing the remittance tax which applies to most of the payments effected through the official market, from 8 per cent to 10 per cent. This tax was introduced by Law No. 2308 and its purpose is to help raise funds for the Federal Electrification Fund. The Brazilian authorities, however, have expressed their dissatisfaction with this method of raising revenue through the exchange system.

b) Until recently the exchange system included no import prohibition, with the sole exception of secondhand goods, probably on account of the difficulties which are encountered in effecting a reliable price control in the case of such goods. Law 2410 of January 29, 1955, however, establishes the prohibition of the importation of automobiles the price of which, in the market of origin, is in excess of US\$3,500.00, including accessories.

c) On August 17, 1954 the Superintendency of Money and Credit established a new procedure (Instruction 102) for imports the value of which exceeds US\$50,000 or the equivalent in other currencies. In order to curb speculation on premia fluctuations, this measure makes it compulsory for the importer to purchase auction certificates for the full amount of US\$50,000 (except the ones at the last auction) at consecutive auctions.

d) With regard to prescription of currency, Notice No. 20 of FIBAN (Fiscalizacao Bancaria) of August 2, 1954 established that exports in inconvertible currencies and in agreement currencies would be authorized by FIBAN only if accompanied by an irrevocable letter of credit containing an explicit clause to the effect that the final destination of the commodity is the country of the currency involved.

Since that time and until March 28, 1955, however, payments in pounds sterling for exports to countries other than sterling area countries have been permitted in some cases by the Bank of Brazil, on an individual basis, and after prior consultation with the Exchange Department. On March 28, 1955, it was established that prior consultation was no longer required.

On the import side, prescription of currency has continued to be strictly enforced, in the sense that payments for imports have been authorized only if effected in the currency of the country of origin of the commodity involved. Two exceptions to this rule have been made, by authorizing imports of copper against payments in a currency different from that of the country of origin; and imports of sulphur against payment in Finnish agreement dollars. These exceptions have been made as a result of the acute scarcity of U.S. dollars and the relative abundance of some soft currencies, such as the Finnish agreement dollar.

e) Finally, changes were introduced in the regulations covering imports without exchange cover; and financing abroad on behalf of Brazilian firms of imports of assembled units of equipment. (Instruction No. 113 of January 17, 1955.)

The regulations concerning imports without exchange cover confirm the policy, which has been followed by the authorities since the inception of the present system, to permit such imports only in exceptional cases, with good assurance that the foreign origin of the financing is genuine.

The new regulations permit imports without exchange cover only on the following conditions:

- 1) The goods to be imported represent a foreign investment in Brazil and constitute assembled units of equipment or, in exceptional cases, equipment intended to complete or improve assembled units already in existence;

- 2) The investor shall submit proof that the equipment to be imported or the resources to pay for it are actually at his disposal abroad;
- 3) The investor undertakes to include the equipment in the assets of the national firm or branch of the foreign firm, to keep it among those assets during the time of its normal use, and not to make payments abroad for the price of the imported equipment.

In the case of financing abroad on behalf of Brazilian firms for imports of assembled units of equipment, the following conditions are established:

- 1) The assembled units of equipment must be normally used for the production of articles classified under import categories I, II and III;
- 2) Annual repayments shall not exceed 20 per cent of the amount financed and are subject to exchange availabilities of the Bank of Brazil;
- 3) The Bank of Brazil will apply a surcharge of Cr\$40.00 per US\$1 to sales of exchange for the repayment of the financing. (The Exchange Department of the Bank of Brazil may authorize the transfer in full or in part through the free market.)

7. Since the 1953 Consultations, Brazil has renewed trade and payments agreement with several countries. New agreements along the usual bilateral lines were signed with Bolivia, Hungary, Poland and Turkey and are summarized below. The main import commodity in the renewed agreement with Argentina is wheat, for which a yearly quota of 1.2 million tons was established for the period 1955-57.

- a) Bolivia: The payments agreement with Bolivia became effective December 24, 1953 and covers payments for current transactions, including pensions and students expenditures, with special provisions for transportation expenses in Brazilian territory for Bolivian imports from, and exports to, third countries. The currency is the conventional agreement dollar. No swing is contemplated. The agreement has one year validity with provision for an automatic extension. The balance on expiration can be utilized for payments for goods and services.
- b) Hungary: The payments agreement with Hungary became effective April 19, 1954, and covers payments for current transactions as well as payments for capital transactions and income therefrom, provided that in each case the contracting parties are in agreement. No payments for transit trade can be effected under this agreement, unless approved by the Bank of Brazil and the Bank of Hungary. The currency is the conventional agreement dollar. There is contemplated a swing in both directions of agreement dollars 2,000,000; with the provision that when the balance either way exceeds the swing by 200,000 dollars, the creditor bank has the right to ask for the payment of the sum involved in U.S. dollars. The agreement has one year's validity, with provision for an

automatic extension. After 180 days from the date of expiration, the remaining balance will be paid in effective U.S. dollars, as follows: 50 per cent within the first 30 days and the remaining 50 per cent within the subsequent 30 days.

- c) Poland: The payments agreement with Poland became effective April 1, 1954, and covers payments for current transactions, as well as payments for capital transactions and income therefrom, provided that in each case the transaction is agreed upon by the Bank of Brazil and the Bank of Poland. No payment for transit trade can be effected under this agreement, unless approved by the two Banks. The currency is the conventional agreement dollar. A swing in both directions of 2 million agreement dollars is contemplated. The agreement has one year's validity, with provision for an automatic extension. After 180 days from the date of expiration, the excess over the working balance shall be paid immediately in effective U.S. dollars, whereas the remainder shall be paid as follows: 50 per cent within the first 30 days, and 50 per cent within the subsequent 30 days; in U.S. dollars, gold or in a mutually agreed currency.
  
- d) Turkey: The payments agreement with Turkey became effective December 12, 1953, and covers only payments for current transactions. The currency is the conventional agreement dollar. No swing is contemplated. The agreement has no predetermined validity and shall expire 90 days after it has been denounced by either party. The liquidation of any balance after expiration shall be effected by exports of goods unless the two Contracting Parties otherwise agree.

In addition to these new agreements, some changes have been introduced in the operation of other agreements, in Brazil as well as in partner countries. Until April 1954 the auction of German dollars was concentrated in Rio de Janeiro and Sao Paulo in order to comply with the request of the German authorities to strictly limit Brazilian imports to the commodities provided for in the trade agreement and to the established quota. This attitude of the German authorities was determined mostly by the fact that the credit balance in their favor was about \$77 million at the end of 1953. At the end of April 1954, however, this policy was relaxed and the Foreign Trade Department of the Bank of Brazil established that henceforth German agreement dollars would be offered for auction at all the Stock Exchanges in the country and that imports from Germany would no longer be restricted to those covered by the trade agreement. The balance in favor of Germany which stood at about \$62 million at the end of March 1954 declined to almost \$59.3 million at the end of June 1954 and more rapidly thereafter, to about \$33 million and about \$25 million at the end of September 1954 and December 1954, respectively. This rapid decline is attributable to the operation of the free market for the payment agreement dollar in West Germany, which market is still effective.

The provision in the trade agreement with Italy that the ratio between Italian imports to Italian exports should be 100 to 70 has been substantially relaxed in consideration of the fact that the balance in favor of

Italy has been reduced recently from \$2 million to \$5 million. (The working balance is \$20 million.) The Government of the Netherlands, on the other hand, has recently introduced, by unilateral decision, an agreement similar to the one contemplated in the Italian agreement, the ratio being 100 to 80. This may be attributable to the fact that the balance in favor of the Netherlands increased from about \$24 million during the second quarter of 1954 to about \$38.4 million at the end of September 1954. At the end of December 1954, however, it was reduced again to about \$14.4 million.

One important consequence of the present exchange system in Brazil is the decreasing importance of the trade agreements. Originally, Brazil used the trade agreements to attain two main objectives: 1) to secure sufficient supplies of scarce products and 2) to help the exportation of certain minor products (the so-called "gravosos"). Under the present system, however, the problem of "gravosos" has been solved by granting adequate export bonuses, whereas no scarcity exists in the world economy. Moreover, under the auction system it would be practically impossible to administer a set of rigid quotas, and the danger of "over-importing" is eliminated by the practice of offering for auction only available exchange. Brazil has, therefore, lost interest in fixing quotas for its imports. With regard to Brazilian exports, the authorities do not attach much importance to obtaining commitments by partner countries to freely issue import licenses up to a minimum usually indicated by the quotas, since they feel that it is in the interest of the partner countries to permit imports from Brazil, since the less exchange is obtained from exports, the less is offered for auction.

This development in Brazil's policy with regard to bilateral agreements represents a form of liberalization of trade to the extent that the importer can choose not only among commodities for which quotas are established, but also among all commodities available in the exporting country. Moreover, a policy aiming at a multilateralization of payments is being studied in Brazil at present. The main idea seems to be to use the exchange obtained from exports to a certain country for payments to other countries acceptable to the country whose currency is involved. More concretely, the policy appears to be aimed at participation in the transferability scheme already in effect for certain currencies, such as the pound sterling and the Deutsche ~~Mark~~ *mark*. A second step which is being contemplated is the introduction of a free market for current transactions for all currencies in Brazil, which would represent de facto transferability of foreign earnings in Brazil itself. These policies, however, especially the second step, are still under study.

## 2. An analysis of the changes

The changes in the restrictive system have been largely the result of the continued domestic inflation and developments in world markets for Brazilian exports, mainly coffee and cocoa. The former factor, by increasing domestic money costs, has steadily decreased the competitiveness of Brazilian exports in general. Developments in world markets and the domestic price support policy for coffee resulted in a reduction in both volume and price of coffee exports and, thus, a significant reduction in foreign exchange receipts.

Before entering into the details of these general points, however, some general comments on the working of the system as a whole appear to be in order.

One of the main characteristics of the Brazilian system, which emerges from the way it has been operated, is the disassociation of effective import and export rates in foreign exchange policy. Apart from the fact that the two sets of rates are operationally unrelated--the one resulting from weekly auctions and being fluctuating in nature; the other being fixed, at least at present, by administrative decisions--the main feature appears to be that the authorities have been trying to establish a given relation between the two sets of rates only for the purpose of keeping the local currency accounts of the system at least in balance. As indicated earlier, the minimum bids and fixed surcharges have been changed on various occasions in relation to changes in the fixed (or fluctuating) effective export rates. Judging from the experience of the recent past the authorities appear to have shown little concern with regard to maintaining, insofar as possible, the double function of the exchange rate as an import-limiting and, at the same time, an export-promoting factor. By and large, the policy seems to have been to establish higher export rates only when export difficulties for the traditional export products developed, and to allocate for imports (after deduction for government and other payments) whatever exchange has been forthcoming at those rates, letting the auction premia be the distributing factor among potential buyers. In other words, the effective exchange rate on the import side has only the function of distributing exchange among importers, and not the function of limiting payments. The latter function is performed by the limitations on the total amount of exchange offered for auction.

A second general point to be made is that the apparent reliance on cost restrictions, as a matter of policy, has been subjected to limitations by the introduction of separate auctions for specified products or groups of products as described earlier.

A third general point, which however, does not emerge from the record available, is that with the widening of the gap between the free market rate (recently fluctuating around Cr\$80.00 per US\$1) and the effective rates for imports (recently the effective rates for all categories, except Category I, have been above the free market rate, at least for the U.S. dollar) and for exports, the practice of over-invoicing (where the free rate is more depreciated than the effective import rate) and under-invoicing (in cases where the free rate is less depreciated) has become more widespread.

With regard to detailed aspects of the exchange system, the following comments can be made on the way the system operated in 1954. It has already been indicated that the increases in domestic money costs, resulting from the continuation of domestic inflation, have played an important role in the changes in the system. This is particularly the case of the effective export rates, the level of which, as indicated earlier, has been increased on several occasions. It should be mentioned in this connection, however, that in the case of coffee, the domestic price support policy has been an additional cause of the changes in the bonuses, and thus in effective export rates. In another section of this paper it is indicated how the minimum price is set in accordance with the law. It may be sufficient to point out here that the U.S. dollar equivalent of the domestic support depends on the level of the effective exchange rate. On a few occasions in the past exports of coffee decreased and the authorities lowered the dollar equivalent by a rate depreciation in order to increase coffee exports. This, rather than the domestic money costs, has prompted the authorities to make the described adjustments in the effective rate for coffee.

Despite the adjustments in export rates, however, exports of coffee and some other products have remained at low levels during 1954, especially after the first quarter. Moreover, the fall in the prices of coffee and cacao contributed to the significant reduction in export receipts. With regard to convertible currencies, the effect on exchange receipts can be seen from the following figures:

Table R. Brazil: Exchange Receipts in Convertible Currencies  
(million U.S. dollars)

<u>1954</u>	
1st quarter (monthly average)	65.7
2nd quarter (monthly average)	35.5
July	30.4
August	31.1
September	<del>51.0</del> 51.0
October	35.2
November	102.9
December	54.5
<u>1955</u>	
January	
February	30.6
March	23.5
	45.0

These developments in exchange receipts have had significant repercussions in the operation of the auction system and in the results of the auctions. Actually, the repercussions have been sharper than the above figures might indicate. A concomitant factor in the picture was, in fact, the continued expectations of high exchange receipts in the near future even during the second quarter of the year when exchange receipts had already shown a signi-

ficant reduction. These expectations induced the authorities to offer for auction relatively large amounts of exchange, as indicated below, which created a serious problem during the third and fourth quarters when the exchange had to be liquidated.

To refer again to U.S. dollar payments, the table below indicates the amounts of exchange offered for auction each month (the amounts taken up by importers were almost always equal to the amounts offered):

Table S. Brazil: Exchange Offered for Auction  
( million U.S. dollars)

	Regular auction	Auction for goods for Agriculture	Total
<u>1954</u>			
January	24.0	-	24.0
February	24.0	-	24.0
March	41.9	0.2	42.1
April	32.5	7.6	40.1
May	32.0	8.0	40.0
June	30.3	8.2	38.5
July	20.2	4.0	24.2
August	22.0	4.0	26.0
September	16.0	4.0	20.0
October	15.3	4.7	20.0
November	8.0	1.5	9.5
December	8.0	2.5	10.5
<u>1955</u>			
January	8.0	2.0	10.0
February	8.0	1.5	9.5

These developments in the amount of exchange auctioned were reflected in corresponding fluctuations in the level of effective rates as well as in local currency proceeds resulting from these exchange transactions.

With regard to effective rates (official rate plus "agios"), <sup>Table T</sup> ~~Table S~~ indicates the trends in the five categories in the Stock Exchange of Rio de Janeiro. The data included in the table must be taken only as an indication of a trend for the country for the following reasons. Each of the various stock exchanges in the country constitutes a separate (non-communicating) market and is subject to the influence of local changes in economic conditions and expectations, at least for short periods of two or three weeks. This may be especially important, insofar as the effective rates are concerned, in cities which receive small amounts of exchange. The various cities, therefore, tend to change in relative position with respect to the level of the rates from one week to another. For this reason and also for

the reason that averaging out prices in separate markets would not be economically meaningful, it appears to be appropriate to take the date referring to a city to which a large proportion of exchange is allocated.

Recourse to an averaging process has been necessary, however, in the case of the different prices of the lots of exchange sold in each category at each auction, and in the case of exchange with different maturities. With regard to different lots, it would be arbitrary to select a single one at each auction and consider the price at which it has been sold as representative. With regard to the different maturities, although the U.S. dollar at 120 days forward has been most frequently offered for auction, during some periods it has not been offered at all. Moreover, when it has been auctioned together with U.S. dollars having different maturities, the proportion of exchange sold 120 days forward has not been kept constant.

With these reservations in mind, it can be seen in the following table that, as could be expected, the upward trend of exchange rates during the first two months of 1954 was followed by a decline during the four months, when the amounts offered for auction were maintained at about \$40 million. The upward trend resumed at a high rate after June 1954 when the amount of exchange offered for auction was reduced, by steps, to about 25 per cent of what it was during the second quarter of the year. It should be noted, however, that the continued domestic inflationary conditions have contributed to accentuate the rate of increase and to slow down the rate of decrease during the second quarter, with respect to what would have happened under approximately stable domestic prices.

Table T. Brazil: Average Effective Rates for the U.S. dollar on the Stock Exchange of Rio de Janeiro (Cruzeiros per US\$1)

Months	Categories				
	1	2	3	4	5
January	42.73	45.86	68.67	80.92	131.65
February	43.61	58.79	78.72	107.61	150.26
March	44.68	56.63	73.65	110.29	137.97
April	41.33	44.84	69.88	103.03	134.92
May	36.95	42.08	72.81	93.73	143.10
June	34.98	41.84	75.28	103.23	147.22
July	41.44	52.07	89.10	106.73	165.54
August	46.77	57.79	100.27	115.70	172.96
September	43.40	59.42	101.82	113.41	173.02
October	48.62	58.37	113.27	123.96	182.71
November	65.88	78.53	152.12	156.05	225.37
December	57.07	76.90	151.40	181.10	206.20

The experience of the period under consideration shows one operational characteristic of the auction system in Brazil: the adjustments for the changes in the total supply of exchange are effected by ~~changing the percentages~~ <sup>changing</sup> percentages of exchange allocated to each category, rather than by changing the classification of the commodities. For example, as a result of the exchange stringency there was an increase in the percentage of exchange allocated to Category I and decreases in the percentages of exchange allocated to Categories II and III. This can be seen from the table below.

Table U. Brazil: Percentages of U.S. dollar Exchange Allocated to the Five Categories of Commodities

Date	Categories				
	1	2	3	4	5
April 22, 1954	37	35	25	2	1
April 27, 1954	37	35	25	2	1
March 21, 1955	45	32	20	2	1
March 28, 1955	45	32	20	2	1

With regard to the gross and net income ("agios"), the only data available shown in the following table, refer to all currencies auctioned in the country. It appears from these data that the highest amounts of gross "agios" correspond to the period in which relatively large amounts of exchange were offered for auction. The data would seem also to indicate that, by and large, within the range involved, the price elasticity of demand for exchange was relatively high. It should be noted, however, that the data insofar as they refer to different currencies reflect changes in supply conditions which were not always the same, and at times were quite different from one another.

The 12.7 billion cruzeiros of net "agios" had important monetary effects. However, since it is not possible to estimate what would have occurred under the circumstances, it is not possible to say whether the system has been inflationary or disinflationary. Had the sum indicated above been sterilized, it would have been safe to state that the exchange system had had a disinflationary effect. Since, however, it has been used for loans for various activities, including the price support program for coffee, it would appear that the exchange system has operated in a neutral way, from a monetary point of view. This is based on the assumption that if the funds from the exchange system had not been available, the loans for which they have been used would not have been made. Whereas it would be impossible to know what would have happened under a different exchange system, many doubts can be raised as to the validity of this assumption. Under the different assumption i.e. that some loans (e.g. the financial assistance to coffee) would have been made irrespective of the exchange system, the conclusion

Table V. Brazil: Gross and Net Agios from the Exchange Auctions  
(In millions of cruzeiros)

Date	Gross agios	Export bonuses	Net agios
<u>1953</u>			
October	525	204	321
November	1,388	714	674
December	2,075	1,043	1,032
Total	3,988	1,961	2,027
<u>1954</u>			
January	1,578	653	925
February	2,177	799	1,378
March	3,133	1,009	2,124
April	3,377	932	2,445
May	3,082	655	2,427
June	2,487	810	1,677
July	1,794	<del>944</del> 944	850
August	2,016	1,134	882
September	2,002	2,042	-40
October	1,878	1,850	28
November	2,064	2,400	-336
December	2,213	2,330	-117
Total	27,801	15,558	12,243
<u>1955</u>			
January	833	1,629	-796
February	896	1,710	-814

Would seem to be that the system has had a disinflationary effect. On the other hand, since a proportion of the gross agios has been paid by importers who have received bank credit, it could also be said that the system, to the extent that it has prompted an expansion of bank credit, which has been subsequently loaned out, had an inflationary effect with respect to what would have taken place under a different system.

As to possible future changes in the exchange system it should be noted that the executive branch is authorized to shift imports into the free market under Law 2410 of January 29, 1955. Article 2 of that law reads:

" 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."

The Brazilian authorities have not manifested any definite intention to avail themselves of this authority and many technical details would have to be worked out.

In considering the implications of such a move it is convenient to treat separately the case where all imports are shifted to the free market from the case where such a shift applies only to part of them. The total shift of imports to the free market, with the surcharges indicated above, would have the merit of reducing the number of import rates, since the different prices for the various lots of certificates would disappear. Similarly, the differences now existing among the effective rates prevailing in different cities during the same day, for the same category, would probably disappear through arbitrage operations, or would be greatly reduced. Little change would take place with regard to cross rates on the import side, since they would continue to be broken. On the assumption that only part of exports would be shifted to the free market, a new feature on the export side would be the emergence of many more broken cross rates (at present there is only a 4.06 per cent difference between the rates applying to convertible currencies and pounds sterling on one side, and all other currencies on the other).

Another general characteristic of the ~~exchange and restrictive~~ system as a whole would be that the cruzeiro would become de facto a convertible currency. This would be the result both of the absence of restrictions on payments through the free market and of the fact that the new law implicitly prescribes that import licenses shall be granted without quantitative restrictions. This aspect would be considered as a healthy development, together with the aforementioned simplification of the import rate system. Some possible difficulties, however, must be pointed out which suggest the need for much caution and preparedness before any such move is made.

In connection with the introduction of a de facto convertibility for the cruzeiro, the doubt arises as to whether most of the minor export products which are now sold to countries with which Brazil has a payments agreement could compete with similar products of other countries on a hard currency basis. It is possible that no difficulties would appear in the initial phase when the accumulated import demand may tend to keep the general level

of the free rate rather high. But, after the initial adjustments, it cannot be excluded that difficulties could appear for a number of export products. For the exporter would be confronted with the alternative: either to ask his importer to pay in dollars for his products which in many cases may prove to be impossible; or to accept the payment in a soft currency. But this currency would possibly be quoted in the free market in Brazil at such a discount as to make the cruzeiro proceeds unremunerative. It could be argued that these possible difficulties would induce the undertaking of investments to reduce costs of production. Although this cannot be excluded a priori, it should be noted in the first place that by and large the main impediments to exports in Brazil are transport facilities and such other general facilities, the improvement of which is much beyond the investment possibilities of a private operator. In the second place, it should be noted that if inflationary conditions continue the rate of money profits would remain very high in a number of activities, and this could probably induce the exporter who encounters price difficulties to shift to other activities instead of improving the cost conditions of the one in which he is engaged.

Also on the export side, it should also be borne in mind that on the basis of Law 1807 of January 7, 1953, export proceeds of coffee, cotton and cocoa cannot be sold in the free market. This obstacle might be overcome by having the Bank of Brazil pay the equivalent of the free market rate to the exporters who surrender exchange deriving from the exports of the mentioned products. The Bank of Brazil would sell such exchange in the free market; but in this way it would become a large scale operator in the market and once so engaged it would be difficult for it simply to play a neutral role. The Bank of Brazil might therefore assume the responsibility of regulating the market in which case it would need a masse de manoeuvre which is presently not available.

On the import side there would arise some difficulties of a different type. In the present system the relationships between the various effective import rates is maintained by changing the percentages of exchange allocated to the various categories. Under the system envisaged by Law 2410 this allocation would no longer be possible. If difficulties arose it would be necessary to proceed to commodity reclassifications. This problem is particularly important for the industries which process imported raw materials and which benefit from the protection deriving from a higher classification of their finished products. The point that is being made here in this respect is not that the present relationships among import rates should be maintained; but, rather, that should the authorities consider it necessary and desirable to maintain those relationships, they would probably superimpose other ~~selective~~ selective devices which would make the system much more complicated than it appears.

Another difficulty could arise from the fact that the new system would freeze the agios (or part of them) prevailing during a period of three months preceding the establishment of the new system envisaged. The surcharges thus obtained could prove to be either too high, and therefore unnecessarily restrictive, or too low, depending on the demand and supply conditions prevailing during the period mentioned. In case the surcharges

are relatively low, the importation of luxuries and of goods considered as non-essential could not be sufficiently restrained in a subsequent period of exchange stringency, and this could induce the authorities to reintroduce quantitative restrictions on imports by some additional device.

To conclude, there is question as to whether the relative simplifications in the system envisaged by Law 2410 would be lost in the event the authorities and the public decided that such a system did not provide the selectivity, the protective features and the outlets for certain exports that the present system offers.

Should the shift of imports to the free market be only partial, the rate simplification feature would not be obtained. Moreover, it is likely that since auction "agios" would continue to exist, the surcharges would be no longer fixed, but would be probably changed at fixed intervals of one month. This would result in effective rates constituted by the superimposition of two fluctuating elements; one of which--the free market rate--representing the present market conditions (for both current and capital transactions) and the other representing the condition of the limited auction market during the past three months, under fixed supply conditions. It would seem that a system of this type would be more complex than the present one.

Table 1. Foreign Trade, 1954<sup>1/</sup>  
(In millions of U.S. dollars)

Countries	Brazilian imports (c.i.f.)	Brazilian exports (f.o.b.)	Balance
<u>Grand total</u>	<u>1,662</u>	<u>1,550</u>	<u>-112</u>
<u>Convertible currencies</u>	<u>844</u>	<u>596</u>	<u>-248</u>
United States	546	574	/28
Dutch Antilles	124	--	-124
Venezuela	82	--	-82
Canada and Nova Scotia	44	15	-30
Other countries	48	7	-41
<u>Inconvertible currencies</u>	<u>818</u>	<u>954</u>	<u>/136</u>
West Germany	160	186	/26
Argentina	107	99	-8
France	86	95	/9
Great Britain	18	74	/56
Japan	81	68	-13
Sweden	61	56	-5
Italy	48	53	/5
Holland	34	45	/11
Finland	33	41	/8
Denmark	34	35	/1
Uruguay	37	31	-6
Other countries	118	172	/54

<sup>1/</sup> Foreign trade data as gathered by the Customs. A conversion rate of Cr\$18.50 per dollar was used for this table.  
Source: Superintendency of Currency and Credit.

Table 2. Foreign Trade-Selected Countries  
(in millions of dollars)✓

	Exports		Imports		Balance	
	1953	1954	1953	1954	1953	1954
West Germany	167	186	111	160	✓56	✓26
Argentina	85	99	188	107	-103	-7
France	95	95	121	86	-26	✓8
Great Britain	87	74	51	18	✓36	✓56
Japan	55	68	13	81	✓42	-13
Sweden	59	56	58	61	✓1	-5
Italy	51	53	28	48	✓23	✓5
Holland	44	45	17	34	✓27	✓11
Finland	19	41	9	33	✓10	✓8
Belgium	26	22	8	4	✓18	✓18

✓ A conversion rate of Cr\$18.50 per dollar has been used.

Sources: Annual Report of the Bank of Brazil, 1953; Superintendency of Currency and Credit.

Table 3. 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	<u>185.4</u>	<u>86.6</u>	<u>64.3</u>	<u>190.7</u>
Total	868.2	671.1	599.9	961.9

Source: Superintendency of Currency and Credit.

Table <sup>4</sup> #1. ~~Summary~~: Foreign Trade - Composition of Imports  
(In millions of dollars)

Category	1953	1954
Raw materials	358.9	469.1
Foodstuffs	290.1	247.8
Machinery and equipment, vehicles and accessories	401.1	490.9
General manufactures	143.7	193.1
Chemicals, pharmaceuticals, etc.	85.7	172.3
Other imports	<u>39.1</u>	<u>60.4</u>
Total	1,318.6	1,633.6

Note: These are customs data as gathered by the Ministry of Finance.

Source: Superintendency of Currency and Credit.

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Table 4 . Foreign Trade: Wheat Imports, 1954

Origin	Volume (Metric tons)
Turkey	150,000
Canada	200,000
Argentina	1,950,000
Uruguay	100,000
Finland	120,000
United States	300,000
	<u>2,820,000</u>

Source: Confidential data provided by SUMOC.

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Table 7 . Index of Prices of Exports and Imports

	I Exports	II Imports	III Terms of Trade (I / II)
1948	100	100	100
1953 Monthly average	192	101	191
1953 January	182	96	190
March	197	95	207
June	182	107	170
September	203	106	191
December	231	98	235
1954 January	242	112	216
February	269	119	226
March	302	127	238
April	300	134	225
May	316	146	216
June	314	150	210
July	323	144	224
August	302	153	198
September	344	148	233
October	339	148	228
November	347	-	-
December			

Source: Conjuntura Economica, Rio de Janeiro, Brazil, January 1955.

Table 7 Foreign Currency Auctions in 1954, by Months

(In thousands of respective currencies)

	Argentina (Agreement dollar)	France (French franc)	Japan (Agreement dollar)	Sweden (Swedish kronor)	Italy (Agreement dollar)	Finland (Agreement dollar)
<u>Auctioned</u>						
Jan.	--	--	--	--	1,851	902
Feb.	--	349,650	1,500	14,975	593	1,233
Mar.	4,705	2,598,750	7,367	39,725	3,068	2,409
Apr.	3,924	3,073,350	9,783	45,080	4,413	1,815
May	1,663	3,449,000	10,378	38,685	7,525	1,351
June	1,168	3,632,300	10,626	19,685	4,099	1,027
July	906	2,654,050	5,596	7,970	4,639	1,600
Aug.	945	2,232,650	5,096	6,875	5,377	1,561
Sept.	690	1,005,550	1,699	--	2,700	1,963
Oct.	473	560,000	1,050	--	1,778	1,413
Nov.	616	419,300	599	10,000	1,295	1,285
Dec.	734	840,000	600	2,750	1,342	2,607
<u>Offered</u>						
Jan.	--	--	--	--	1,900	1,500
Feb.	--	350,000	1,500	15,000	600	1,500
Mar.	60,800	2,673,650	7,400	40,000	3,100	2,500
Apr.	141,200	3,300,500	10,100	47,000	4,600	2,500
May	3,200	3,465,000	10,800	43,000	9,000	3,500
June	3,184	3,645,250	10,800	20,000	5,400	2,000
July	1,216	2,654,750	5,600	8,000	4,800	1,800
Aug.	1,000	2,240,000	5,100	6,900	5,400	1,600
Sept.	800	1,015,000	1,700	--	2,700	2,000
Oct.	800	560,000	1,050	--	1,800	1,600
Nov.	850	420,000	600	10,000	1,300	1,300
Dec.	1,250	840,000	600	2,750	1,350	2,900

Source: Superintendency of Currency and Credit.

Table 8  
 Coffee Exports  
 (In millions of bags)

Year	Total		1954	1953
1946	14.0	January	1.125	1.204
1947	13.6	February	.944	1.206
1948	17.0	March	1.375	1.359
1949	16.3	Subtotal	3.444	3.769
1950	16.8	April	.998	.991
1951	14.9	May	.474	.792
1952	16.1	June	.396	.997
		Subtotal	1.868	2.780
		July	.626	.876
		August	.518	1.368
		September	.837	1.662
		Subtotal	1.981	3.906
		October	.855	1.653
		November	1.547	1.792
		December	1.25	1.659
		Subtotal	3.652	5.104
		TOTAL	10.945	15.559

Source: U.S. Department of Agriculture and various publications on coffee.

Coffee Exports, 1955

(In thousands of bags)

Month	Week Ending	Total	To United States	To Europe	Other Countries	Total 1954
January	1/8/55	255	130	55	70	326
	1/15/55	205	79	124	2	250
	1/22/55	160	77	71	12	379
	1/29/55	<u>244</u>	<u>113</u>	<u>120</u>	<u>11</u>	<u>154</u>
		864	399	370	95	1,109
February	2/5/55	171	86	80	5	245
	2/12/55	104	48	37	21	147
	2/19/55	148	53	90	5	212
	2/26/55	<u>114</u>	<u>44</u>	<u>57</u>	<u>13</u>	<u>312</u>
		537	229	264	44	916
March	3/5/55	135	64	60	11	200 <sup>1/</sup>
	3/12/55	137	108	20	9	254
	3/19/55	268	116	144	18	332
	3/26/55	<u>162</u>	<u>78</u>	<u>72</u>	<u>12</u>	<u>321</u>
		702	366	296	40	1,107
April	4/2/55	230	140	80	10	327
	4/9/55	159	120	25	14	277
	4/16/55	306	187	117	2	220
	4/23/55	237	157	65	15	213
	4/30/55	<u>239</u>	<u>146</u>	<u>86</u>	<u>7</u>	<u>209</u>
		1,171	750	373	48	1,246
Total—January—April		3,274	1,744	1,303	227	4,378

<sup>1/</sup> Estimated.

Source: Pan-American Coffee Bureau, New York, Coffee Market.

Table 9. Coffee Prices, 1937-55  
(In U.S. cents per pound)

Year	Santos 4's in New York
1937-39	9.9
1940 <sup>1/4</sup>	11.8—OPA set price at 13.4 cents in 1948-44.
1946	21.8—Ceiling price lifted in July 1946.
1947	30.1
1948	26.8
1949	27.5
1950	50.9
1951	54.3
1952	54.1
1953	58.5
1954	78.3
1953	
January	54.0
March	61.8
June	56.0
July	59.3—Frost in Brazil, July 3, 1953.
September	61.5
December	61.3
1954	
January	72.5
February	76.0
March	85.8
April	87.0—High point 95 cents on April 1, 1954.
May	85.5
June	87.0—June 3, 1954, 87 cent minimum.
July	88.3
August	75.5—Depreciation of export rate in Brazil.
September	71.8
October	70.0
November	72.0—Coffee dollar rate fixed at Cr\$31.50 per dollar
December	68.5
1955	
January	67.0
February 4	63.5
7	69.0—Coffee rate raised from Cr\$31.50 to Cr\$37.06.
16	55.5
23	57.5—Reaction as other countries reportedly introduced minimum prices.
March	58.2
April	58.2
May 11	55.0

Source: International Financial Statistics.

Table 10. Exports by Principal Commodities

(In millions of cruzeiros)

Year	Coffee		Cotton		Cocoa		Other		Total
	Value	Per cent of total	Value	Per cent of total	Value	Per cent of total	Value	Per cent 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 <sup>1/</sup>	21,822	57	5,917	15	3,827	10	6,751	18	38,317

<sup>1/</sup> Through November.Sources: Banco do Brasil, Relatorio, 1953; Mensario Estatistico, January 1955.

Table 11. Exports of Cotton, by Principal Countries

(In millions of cruzeiros)

	1950	1951	1952	1953	1954 <sup>1/</sup>
Great Britain	769.4	1,490.2	0.7	553.1	588.3
Germany	46.5	374.3	74.8	328.1	683.0
France	284.8	541.6	186.7	195.6	492.7
Japan	192.0	256.3	224.3	359.2	915.1
Other	643.4	1,160.3	153.4	802.4	1,806.5
Total	1,936.1	3,822.7	639.9	2,238.4	4,485.7

<sup>1/</sup> January-August.Sources: Anuario Estatistico do Brasil, 1952, 1953, and 1954; Mensario Estatistico, October 1954.

Table 12 Business Turnover and Volume of Production,  
1953 - 1955

(1948 monthly average = 100)

	Business Transactions at constant prices	Volume of Production			Index of Total Industrial Production
		Iron and Steel	Textiles	Electric Power	
1953					
Monthly average	141	197	122	138	146
1954					
Jan.	144	212	138	150	151
Feb.	148	222	134	168	150
Mar.	155	211	143	147	151
Apr.	155	223	153	154	157
May	154	218	158	151	158
June	153	206	152	154	156
July	150	230	137	153	153
Aug.	151	241	130	151	149
Sept.	151	242	131	161	151
Oct.	156	256	150	146	163
Nov.	158	252	152	154	169
Dec.	156	239	157	157	169
1955					
Jan.	152			163	
Feb.	148				

Source: Conjuntura Economica, March 1955.

Table 13. Brazil: Volume of Agricultural Production -  
Principal Crops 1/  
(Thousand metric tons)

	1948	1950	1952	1953	1954
<u>Domestic Crops</u>					
Maize	5,607	6,023	5,907	5,984	7,071
Rice	2,554	3,218	2,931	3,072	3,448
Mandioca	12,455	12,532	12,809	13,441	14,210
Sugar	30,893	32,671	36,041	38,337	39,048
Beans	1,133	1,248	1,152	1,387	1,615
<u>Export Crops</u>					
Coffee	1,037	1,071	1,125	1,110	1,053
Cotton	320	393	515	388	450
Cocoa	37	153	114	137	152

1/ The above crops have been listed in order of importance in terms of the total value of production.

Source: Bank of Brazil - Annual Report, 1953; Conjuntura Economica; Statistical Yearbooks, Brazil; Brazilian press; Brazilian Government Trade Bureau, New York; Boletim Estatistico, Instituto Brasileiro de Geografia e Estatistica.

Table N : Consolidated Monetary Accounts of Brazil I/  
(In billions of cruzeiros)

	1950	1951	1952	1953	1954	1955	1956	1957	1958	
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	
Bank for Claims on:										
<b>A. Public sector</b>										
Net claims on Government <sup>2/</sup>	25.5	26.8	23.4	24.0	25.2	24.0	25.2	24.0	25.2	24.0
Net claims on Official Entities	(25.5)	(26.8)	8.2	10.8	10.8	11.1	13.5	15.7	18.7	18.7
Loans to Official Entities	n.c.	n.c.	10.8	13.6	14.6	16.7	18.6	21.2	21.2	21.2
Non-monetary deposits	-2.3	-4.0	-2.6	-3.0	-3.4	-3.4	-2.9	-2.9	-2.5	-2.5
<b>B. Private sector</b>										
Loans and investments	57.7	76.4	91.7	110.4	115.4	125.1	128.2	128.2	128.2	128.2
Non-monetary deposits	-21.8	-18.6	-18.7	-19.5	-30.1	-20.8	-22.0	-22.0	-22.2	-22.2
<b>C. Foreign sector</b>										
Foreign assets	2.4	4.5	-2.4	-7.1	-10.7	-16.0	-21.0	-21.0	-21.0	-21.0
Foreign liabilities <sup>3/</sup>	13.9	10.9	11.1	12.0	11.2	9.3	9.9	9.5	9.5	9.5
Exchange premium (agio/prime bonus)	-1.5	-6.6	-13.5	-16.7	-15.3	-14.1	-14.2	-16.2	-16.3	-16.3
	--	--	--	-2.4	-6.5	-11.2	-14.7	-14.3	-13.5	-12.7
<b>D. Other</b>										
Incorporated assets	-14.3	-17.1	-18.6	-21.2	-22.4	-20.1	-23.9	-25.0	-25.0	-25.0
Unincorporated liabilities and credit accounts	0.5	1.8	8.3	5.6	6.3	10.7	12.1	13.1	13.1	13.1
	-13.8	-15.3	-10.3	-15.6	-16.1	-9.4	-11.8	-11.9	-11.9	-11.9
<b>Money supply (total A through D)</b>										
Currency issued	-28.2	-31.2	-31.3	-31.3	-31.3	-31.3	-31.3	-31.3	-31.3	-31.3
Currency held by banks	6.1	6.9	7.7	9.1	7.8	8.1	8.7	10.1	9.6	9.6
Currency with the public	-25.1	-28.2	-31.6	-37.9	-39.1	-40.5	-45.4	-48.9	-48.2	-48.2
Monetary deposits	-53.2	-62.3	-72.5	-86.1	-99.3	-92.6	-97.7	-102.6	-102.6	-102.6

1/ Consolidation of accounts of the Monetary authorities and the commercial banks. *Time sign* indicates liabilities of banks and Monetary authorities.

2/ Including some accounts of the foreign exchange servants (overseas chambers-outside entities) and purchases and sales of export and import commodities.

3/ Including short time deposits of the Government.

4/ Debt positions with foreign banks, obligations in foreign exchange for loans contracted and deposits for exchange.

Source: International Financial Statistics, April 1955, and unpublished data of the Superintendency of Currency and Credit.

Table 15 Creation of Money in Brazil: Changes in Selected Monetary Accounts  
(in billions of Cruzeiros)

	1951	1952	1953	1954	1954			1955	
					Mar.	June	Sept.	Dec.	Jan.
Increase or Decrease (-) in Claims on:									
<b>A. Public Sector</b>									
Net claims on Government	1.3	6.6	10.6	12.8	1.9	2.3	0.9	7.7	
Net claims on official entities	( 1.3 )	6.6	8.0	4.9	1.6	.1	-1.3	4.7	
Loans to official entities	n.a.	n.a.	2.6	7.9	.3	2.4	2.2	3.0	
Monetary deposits of off. entities	-1.7	1.4	.2	7.6	.8	2.3	1.9	2.6	
				.3	-.5	.1	.3	.4	
<b>B. Private Sector</b>									
Loans and Investments	18.7	15.3	18.7	30.3	5.2	9.5	13.8	1.8	
Monetary deposits	14.9	15.6	19.9	33.0	5.8	10.2	15.0	2.0	
	3.8	-.3	-1.2	-2.7	-.6	-.7	-1.2	-.2	
<b>C. Foreign Sector</b>									
Foreign assets	-4.9	-6.9	-4.7	-13.9	-3.6	-5.3	-5.0	-.1	
Foreign liabilities	-3.0	.2	.9	-2.4	-.8	-1.9	.6	-.3	
Exchange premia (agios) and bonuses	-1.9	-7.1	-3.2	-.1	1.4	1.2	-2.1	-.1	
	---	---	-2.4	-11.9	-4.2	-4.6	-3.5	.4	
<b>D. Unclassified Assets and Liabilities (Net)</b>									
	-2.8	-1.5	-4.6	-1.8	.8	-1.7	.2	-1.1	
<b>Changes in Money Supply (Total A through D)</b>									
Currency Issued	12.3	13.5	20.0	27.4	4.3	4.8	9.9	8.4	
Currency held by banks	4.1	4.0	7.7	12.0	-.1	1.8	5.4	4.9	-1.2
Currency with the public	-.8	.8	-1.4	-1.0	1.3	-.3	.6	-1.4	.5
Monetary deposits	3.3	3.2	6.3	11.0	1.2	1.5	4.8	3.5	-.7
	9.0	10.3	13.7	16.4	3.1	3.3	5.1	4.9	

Source: Table 4

Table 16 Loans and Investments of the Bank of Brazil  
and Commercial Banks  
(in billions of cruzeiros)

End of period	Total	Bank of Brazil 1/				Commercial banks				
		To Government 2/	To official entities	To business and individuals	To commercial banks	To Government	To official entities	To business and individuals		
1950	41.8	22.4	3.1	16.3	5.0	}	}	63.2		
1951	53.2	22.1	5.0	26.1	6.5				2.3	68.3
1952	70.9	27.6	6.9	36.4	8.1				3.1	73.6
1953	82.2	31.2	8.6	42.4	11.4	1.4	4.0	87.4		
1954	111.6	36.2	15.9	59.5	12.3	1.3	5.0	103.4		
1953										
I qtr.	71.3	27.6	7.3	36.4	8.1	1.4	2.6	74.8		
II qtr.	73.4	28.8	7.2	37.4	8.5	1.4	3.4	79.2		
III qtr.	75.9	30.0	7.5	38.4	11.0	1.4	3.3	83.9		
IV qtr.	82.2	31.2	8.6	42.4	11.4	1.4	5.0	87.4		
1954										
I qtr.	85.8	33.0	9.2	43.6	11.3	1.3	5.2	92.1		
II qtr.	93.2	32.7	11.8	48.7	12.3	1.5	4.9	97.2		
III qtr.	102.4	31.3	13.4	57.7	13.6	1.5	5.2	103.2		
IV qtr.	111.6	36.2	15.9	59.5	12.3	1.3	5.3	103.4		
1955										
Jan.	110.8	36.3	16.2	58.3	12.1					
Feb.	111.7	37.0	16.5	58.2	11.8					
Mar.										

1/ Consolidated accounts of all Departments of the Bank and of the Banking Mobilization Fund.

2/ Loans and investments in Government securities net of government deposits with the Banco do Brazil. It also includes the net balance of certain accounts of the Foreign Exchange Department ("outras contas").

Source: International Financial Statistics, IMF, April 1955.

Table 17. Index of Prices

~~(Per cent)~~*(1948 monthly average = 100)*

	Index of Wholesale prices	Per cent increase	Index of the cost of living in Sao Paulo	Per cent increase
1948	100		100	
1949	109	9	98	-2
1950	124	14	104	6
1951	146	18	113	9
1952	163	12	133	18
1953	188	15	162	22
1954	246	31	190	17
1954 January	219		170	
February	226		173	
March	230		177	
April	242		186	
May	244		189	
June	247		190	
July	252		196	
August	253		197	
September	255		198	
October	256		200	
November	260		203	
December	263		205	
1955 January	265			
February	267			

Source: Conjuntura Economica, March 1955.

18

Table 17. Brazil: Government Finances  
Federal, State and Municipal Governments  
(In billions of cruzeiros)

	Actual Receipts				Actual Expenditures			
	Total	Federal	State <sup>1/</sup>	Municipal	Total	Federal	State <sup>1/</sup>	Municipal
1946	21.6	11.6	8.3	1.7	24.6	14.2	8.6	1.8
1957	25.0	13.9	8.9	2.2	26.1	13.4	10.4	2.3
1948	29.7	15.7	11.2	2.8	31.0	15.7	12.4	2.9
1949	35.6	17.9	13.9	3.8	39.7	20.7	14.9	4.1
1950	40.6	19.4	16.4	4.8	47.4	23.7	18.5	5.2
1951	55.0	27.4	22.9	4.7	53.7	24.6	24.4	4.7
1952	61.7	30.7	25.1	5.9	65.3	28.5	30.8	6.0
1953	75.1	37.1	30.5	7.5 <sup>2/</sup>	83.4	39.9	35.9	7.6 <sup>2/</sup>
1954	89.6	46.5	34.0 <sup>2/</sup>	9.1 <sup>2/</sup>	96.9	49.3	38.5	9.1
1955	101.2	53.5 <sup>2/</sup>	37.5 <sup>2/</sup>	10.2	119.9	68.1 <sup>2/</sup>	41.5	10.3

- 1/ Includes Federal District.  
 2/ Budget estimate.  
 3/ Including extrabudgetary deposits.

Source: Bank of Brazil, Annual Report, 1953; data provided by Superintendencia da Moeda e Crédito.



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**Number of Pages:** 1  
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Stockpiling of Coffee and on Devaluation  
**Author of Article:** Sam Pope-Brewer  
**Number of Pages:** 2  
**Language:** English

**Reviewed:** August 2021

Treasurer  
Comptroller  
Internal Auditor

April 29, 1955

Acting Secretary

Repurchase - Brazil 191

At Meeting 55/17, April 29, 1955, the Executive Board approved the proposal in EBS/55/17 (4/12/55).

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

No. 48

Code

Executive Board approved today postponement of the discharge of repurchase obligation as follows:

Quote

(a) In accordance with Rule I-6 the Fund has computed, and Brazil has agreed, that it has a repurchase obligation as of April 30, 1953, amounting to \$34,436,000.00. The monetary reserve data as of April 30, 1954 will be forthcoming shortly.

(b) Brazil has requested that payment of the repurchase obligation which has been calculated as of April 30, 1953, and of any repurchase obligation that may have accrued as of April 30, 1954, be postponed. Brazil will discharge these repurchase obligations in gold or convertible currencies in accordance with Schedule B not later than on the dates and in the amounts specified in the repurchase schedule set forth in the decision of the Executive Board at Meeting 53/78 on October 23, 1953.

(c) The proposal of Brazil is agreed.

Unquote

Test No. 895

INTERNATIONAL MONETARY FUND

DO NOT TYPE BELOW THIS LINE

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



Cleared with Mr. Horne

Drafted By BKroc/dr  
Department Treasurer's  
Date April 29, 1955

AUTHORIZATION

Signature

Second Signature When Required

FOR CODE ROOM

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**Author of Article:** Jerome Oelbaum  
**Number of Pages:** 1  
**Language:** English

**Reviewed:** August 2021



# Office Memorandum

R

TO : The Managing Director

DATE April 4, 1955

FROM : Paul J. Brand *PJB*

SUBJECT : Coffee

You have probably seen the attached news story or similar ones indicating some agreement in principle between Brazil and Colombia on stabilization of coffee prices through withholding of excess stocks from the market. At the moment we have no information beyond that appearing in the press. It is too early to say to what extent the other coffee-producing countries would join in such a move and, of course, implementation of such a policy would not be without difficulties, particularly considering the payments position of some of the countries concerned.

Apparently in response to these news reports, the New York coffee market was strong last Friday; July, September, and December futures rose the daily limit of 2¢ a pound, with the remaining future contracts (May 1955 and March 1956) registering lesser gains.

The Wall Street Journal reports today that U.S. roasters have recently stepped up their buying of green coffee in order to replenish their working stocks which are believed to be "down to rock bottom".

We shall continue to follow developments relating to coffee.



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**File number:** 19

**ADLIB ref.  
number:** 5266

**File title & dates:** Brazil/file/1951-1956

**Doc. title &  
dates:** **Date of Publication:** 1955-04-02  
**Publication:** The New York Times  
**Article Title:** COFFEE PRICE PACT IS REPORTED IN RIO - Brazil and Colombia Are Said to Ask  
Other Lands to Join in Withholding Surplus - U.S APPROVAL DOUBTED - African Powers Held  
Unlikely to Join --- What to Do With Oversupply Up in Air  
**Author of Article:** Sam Pope-Brewer  
**Number of Pages:** 1  
**Language:** English

**Reviewed:** August 2021



# Office Memorandum

Q

TO : The Managing Director

DATE: March 29, 1955

FROM : Paul J. Brand *PJB*

SUBJECT : Coffee

As requested, I attach a press report on yesterday's coffee market. The market on the whole was firmer, though apparently without any particular excitement. Increases in futures ranged from .56¢ for March 1956 to .93¢ for May 1955. The spot price was up about 1/2¢ for Colombia and roughly unchanged for Santos. Except for the attached one, the reports in the other papers (New York Times and Wall Street Journal) make no reference to any particular cause for yesterday's rise. I checked with a U.S. source yesterday on the report published in the New York Times Monday morning and was told that he had not heard of any plans for stock-piling or special financing of coffee.

We shall, of course, watch the situation and inform you of any major developments.

*outflow  
more private capital  
14, what for price  
introduced a lot of things  
without consulting us*

*def.  
KORP  
In credit for construction goods  
In investment  
Autonomous agencies  
Can I sell 300m loan  
p.9 10*

# Stability Reports Aid Coffee

As March went off the board in the coffee futures market at better than 60c a pound, the May position which had been at a sharp discount moved into the spot slot and started yesterday toward the level of March. It advanced 93 points to 53 3/8c and had a salutary influence on the balance of the lift. Sales were 152 lots. Demand for the forward months, which closed 56 to 60 points higher, was helped to considerable extent by a flood of rumors, all of which pointed in the direction of the producing countries with possible aid from the United States stabilizing coffee prices. None of the rumors was new. One hadn't even been heard in the market, but U.S. Senators brought it to light. It was to the effect that Brazil was planning to burn coffee to keep up the price. No one was prepared to believe Brazil is that desperate.

The other reports which were in the market last week got another round of publicity. These included the one that Brazil would get a loan from the U.S. against surplus coffee as collateral, another that a quota system would be established, aided by U.S., and still another that the U.S. would buy coffee outright to stockpile.

### May Under Actuals

At least the reports put the producing countries on the offensive and took away the gloom temporarily that pervaded the market recently.

as traders looked at the buildup in prospect of surplus supplies in the producing areas. But the practical and immediate aspect of the market showed May in the futures market, even with yesterday's rise, still more than 4 1/2c a pound under the price prevailing for Santos 4s in the spot market. Santos 4s were quoted at 53 1/2c which was at a premium over what importers could buy from Brazil direct. For direct prompt shipment from Brazil Santos 4s could be bought at 53 7/8c f.o.b., equal to about 56 1/4c laid down in New York. Roasters, however, preferred to buy in the spot market and pay the premium

rather than buy ahead for shipment. They are still opposed to stock piling. Colombians were in similar pattern. March arrivals sold at 59c and offerings of floats were held at 59 1/4c. At least one of the big chains was buying at 59c. Last week's clearances were lower from Brazil, totaling 169,000 bags against 281,000 the previous week. Of this total only 78,000 were from the U.S. against 114,000 the previous week. Shipments to Europe were 72,000 against 144,000 and elsewhere were 19,000 against 23,000. Bolsa prices in Brazil were steady. (Spot prices on Page 10)

BRASIL - nominal	
Santos	53 3/8
Panama	57 5/8
COLOMBIA - nominal	
Medan	53 5/8
Manizales	53 5/8
Bogota	53 5/8
Medellin	53 5/8
ECUADOR - nominal	
Washed	57 00
GUATEMALA - nominal	
Highgrown	57 00
U.S. LIVADOR - nominal	
Washed	57 75
HAITI - nominal	
Washed	57 00
Nat. in U.S. xx	53 00
WASH. COCA - nominal	
Washed	56 25
DOM. REP. - nominal	
Washed	56 25
MEXICO - nominal	
Coatepec	58 00
VENEZUELA - nominal	
Tachira, washed	57 00
Manizales, washed	57 00
BELGIAN CONGO - nominal	
Arabica, washed	57 00
PT. N. AFRICA - nominal	
MOCHA - nominal	54 00
PT. WEST AFRICA - nominal	
Ivory Coast	46 25
AMBIE - nominal	53 00
ETHIOPIA - nominal	
Adyssa dia	53 25
AT N. OREANS - nominal	
Roo. Ts	44 75
Victoria 7-8s	39 75

Prices quoted by importers and jobbers ex dock New York for 100 bags or more.

(All the above quotations in wholesale lots New York unless a heavy specification (n) indicates price is nominal. Price ranges reflect differences between the high and low sellers based on quality and quantity factors.)

NEW YORK TIMES 3/29

SANTOS, 5 <sup>th</sup> CONTRACT				
	High	Low	Close	Prev. Close
May	54 45	53 50	53 88	54 35
July	47 40	46 75	46 80	46 20
Sept	43 35	43 00	42 80	42 15
Dec	41 65	40 90	40 90	40 34
March (55)	40 00	39 50	39 26	38 70
Sales	152 lots			

SUGAR

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  
Paulo Fernandes

NEW YORK TIMES, N

## COFFEE TAX PLAN SCORED IN BRAZIL

Grower Group Opposes Rise  
in Promotion Levy From  
10c a Bag to 25c

Special to The New York Times

RIO DE JANEIRO Jan 23—A proposed Brazilian tax of 25 c (United States currency) on each bag of coffee exported is opposed by the Rural Association of São Paulo.

The present tax is 10 cents a bag of 132 pounds. It is used for promotional purposes, especially in the United States.

Horacio Cintra Leite, director of the Pan American Coffee Bureau who is visiting here has been urging more promotion and for that reason is asking for greater financial help. A 25 cent tax would produce the extra revenue needed, he said.

Sylvio de Almeida Prado, director of the Rural Association, declared flatly that Brazil's coffee growers would not accept Senhor Leite's suggestion.

Senhor Prado has other grievances. One relates to Government regulations last week regarding export subsidies on several items. So far as coffee is concerned, Senhor Prado said, the Rural Association considers the new decree as a provocation.

He also takes the view that bonuses stimulating exports of manufactured goods would cause scarcities here and that higher prices in home markets would ensue.

### Organized Protest Seen

Senhor Prado declared that farmers might even be tempted to organize a campaign against the regulations, on the ground that they strongly favored manufactured products to the detriment of farm products. Coffee growers and exporters also would join in the campaign, he said.

Meantime for the fourth time within a year, Brazil has as a visitor Manuel Mejia, head of the Colombian Coffee Federation and one of the financial powers of his country. He is now in São Paulo conferring with large growers of coffee, but the precise subject has not been announced.

Señor Mejia has been an advocate of reasonable coffee prices and has opposed "overproduction." He favors closer cooperation between Brazil and Colombia, the world's two largest coffee-producing nations.

The Colombian believes that high coffee prices might lead to excessive plantings in other countries and create overproduction. This, he contends, would bring chaos to the nations whose principal export is coffee.

To Brazil file

Facts about the inflation in Brazil for some years, say 1952-55

indicated e.g. by

- a) cost of living index
- b) wage increases
- c) increase of money supply (indicate in footnote how it is computed)
- d) increase of bank credit:
  - i) by Banco do Brasil
  - ii) by other banks
- e) Total amount of credit given by B do B to Federal Government and Autarkias (end of year figures for 1955 or last available figures)  
States and municipalities

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Federal Government and Autarkias (end of year figures for 1955  
or last available figures)  
States and municipalities

Executive Board Meeting 53/10

held on February 19, 1953 at 3:00 p.m.

1. Exchange System - Brazil

(In the paragraph before the decision on the second page)

.....It was pointed out that a continuing expansion of money and credit had been among the main inflationary causes and the view was expressed that such an expansion could probably not be curbed effectively until a central banking system was established. The Chairman said that he had come to agree fully with that view. ....