

EBS/83/198

CONFIDENTIAL

September 12, 1983

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

Attached for the information of the Executive Directors is a paper on changes in the exchange system of Brazil.

Att: (1)

INTERNATIONAL MONETARY FUND

Brazil--Exchange System

Prepared by the Western Hemisphere Department and the
Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by E. Wiesner and W.A. Beveridge

September 12, 1983

In the attached communication dated August 1, the Brazilian authorities have informed the Fund of the introduction of new foreign exchange surrender requirements and an associated foreign exchange allocation system involving the Central Bank of Brazil. The authorities have stated that the measure is temporary, and will be eliminated as soon as the foreign liquidity situation has eased. With effect from August 1, foreign exchange transfers abroad for the purpose of discharging sales obligations entered into on and from that date by authorized Brazilian commercial banks are to be effected according to the terms and priorities prescribed by the Central Bank. Brazil has been incurring payments arrears; these amounted to SDR 2.4 billion as of August 31, 1983, of which more than three quarters represented arrears to foreign creditors. The new system of centralized exchange surrender and allocation is intended to assist in restoring orderly payments arrangements and the elimination of the arrears, in conjunction with negotiations presently underway for rescheduling external obligations.

Under the new system, the staff understands that commercial banks are obliged to match daily their foreign exchange assets and liabilities i.e., they are not permitted to run long or short positions above limits established by the Central Bank. These permissible positions were substantially reduced as of August 1. Since there are some foreign exchange sales not subject to the deposit requirement established by the new regulations, the matching of the foreign exchange purchased each day may be made either through those sales or by selling the final excess amounts to the Central Bank. The commercial bank receives remuneration on its balances with the Central Bank at the prime or LIBOR rate applicable to the currency of transfer. There has been no change in the obligation of non-banking entities to sell foreign exchange earnings to commercial banks. The withdrawal of the amounts deposited with the Central Bank is made in accordance with priorities established by the National Monetary Council. In the commercial bank-customer relationship the sale of foreign exchange to the customer by the bank will be deemed to have been completed by the

selling bank receiving the cruzeiros, and the customer receiving a claim on the release by the Central Bank on a future date of the purchased amount of foreign exchange. Whereas previously Brazilian commercial banks were permitted to make their own allocations and deliveries of foreign exchange to customers, under the new system most individual deliveries of foreign exchange are subjected to an express authorization by the Central Bank of Brazil, on the basis of the priorities established by the National Monetary Council.

Prior to the above measures, the Brazilian exchange system involved other exchange restrictions and practices subject to Fund approval under the provisions of Article VIII, Sections 2 and 3. These were, as noted in earlier staff reports, several multiple currency practices and bilateral payments arrangements, and minor exchange restrictions arising from limits on the availability of foreign exchange for outward remittances in respect of technical assistance fees and royalty payments and the imposition of minimum financing requirements for certain categories of capital goods and replacement parts. ^{1/} With the exception of a discriminatory multiple currency practice, all were approved until August 30, 1983 or the first review under the extended arrangement, whichever was the earlier. (Decision No. 7350-(83/41) and Decision No. 7390-(83/67)). In addition, the maintenance by Brazil of external payments arrears and the centralization on a comprehensive basis of foreign exchange allocations constitute exchange restrictions subject to approval under Article VIII, Section 2(a) of the Fund Agreement. They also constitute actions by Brazil that are inconsistent with paragraph 4(d)(ii) of the extended arrangement as amended (Decision No. 7390-(83/67)).

The staff has continuing contacts with the Brazilian authorities. A report of these discussions for consideration by the Executive Board is expected to be issued in due course and it will include an assessment of the recent changes in the exchange system. In the meantime, no action by the Executive Board is proposed.

^{1/} "Brazil--Staff Report for the 1982 Article IV Consultation, Request for Extended Arrangement and Use of Fund Resources--First Credit Tranche," (EBS/83/33, 2/11/83) and "Brazil--Exchange Measures, Request for Waiver and Modification of Performance Criteria, and Approval of Certain Exchange Measures," (EBS/83/77, 4/19/83).

FROM: CENTRAL BANK OF BRAZIL
BRASILIA, DF

TO: INTERNATIONAL MONETARY FUND
WASHINGTON, USA

In compliance with your request we retransmit text of Resolution 851 and Circular 804:

Resolution No. 851

The Central Bank of Brazil, pursuant to Article 9 of Law No. 4595 of 12/31/64, announces that the National Monetary Council, at a meeting held today, having regard to Article 4(v) and (xxxi) of said Law,

Resolved:

I. The transfer abroad of foreign currency amounts pertaining to the settlement of foreign exchange sales entered into on and from 8/1/83 by banks authorized to deal in exchange in Brazil shall be effected in the manner and on the terms prescribed by the Central Bank.

II. For the amount of sales of exchange concluded each day, the banks shall contract with the Central Bank operations intended to set up deposits, whether or not remunerated, in such manner as the Central Bank may establish, in the foreign currencies in which the sales were effected, which deposits shall be recorded in the name of the depositing institutions.

III. The Central Bank shall adopt the supplementary measures necessary to implement this Resolution.

IV. This Resolution shall enter into force on the date of its publication.

Brasilia, DF, July 29, 1983
Carlos Geraldo Langoni, President

Circular No. 804

This is to make it known that the Board of Directors of the Central Bank, having regard to the provisions of Resolutions No. 851 of today's date, has decided that, except for the operations referred to in item 11 of this circular, the amount of foreign currency sales entered into by banks authorized to deal in exchange in Brazil must, from the date said Resolution takes effect, whatever the nature of the operation and whether or not it is covered by a certificate or authorization from this institution, be the subject of a foreign currency deposit with this Central Bank on the date of settlement.

2. Exchange sale operations subject to the provisions of this circular shall be formalized with full observance of the exchange regulations, including as regards their classification.

3. The following provisions shall be observed in settling such operations:

(a) No outward remittances shall be effected;

(b) The exchange sale contract shall be settled by means of a debit to the customer's account and, without any movement in accounts with a bank abroad, a credit to "Settlement accounts in foreign currency," subheading "Miscellaneous operations under Resolution No. 851."

4. In regard to the establishment of letters of credit by authorized banks in Brazil, the following shall be observed.

(a) Conclusion of an exchange contract to cover the establishment of letters of credit is prohibited, even when they pertain to imports from countries with which Brazil maintains payment agreements,

(b) Since the pertinent exchange cover will only be obtained after the settlement of the exchange operation in Brazil and when indicated by the Central Bank, the bank must make sure that credit lines in foreign currencies are actually available in the amount required to finance the operation as from the date of negotiation or maturity of the letter of credit, depending on whether a sight or a time letter of credit is involved;

(c) the sale of exchange to the customer shall be entered into upon receipt of the negotiation advice (in the case of a sight letter of credit) or on the maturity date (in the case of time letters of credit);

(d) the operation referred to in the preceding subitem shall also be the subject of a deposit in accordance with item 5 below.

5. Exchange purchases by banks for setting up the deposits shall be effected with due observance of the following:

(a) They shall be concluded with this Bank on the day the corresponding sales to customers are contracted for;

(b) The applicable exchange rate shall be the cover rate fixed for the currency in the "Opening" list of exchange rates for the day. In the event the currency involved is not quoted in said "Opening" list, the rate applicable to the operation shall be the cover rate for the currency first included in a subsequent exchange rate list issued by this Bank on the particular day or, where appropriate, the specific exchange rate for the operation furnished upon request by the local Regional Division of Exchange Operations;

(c) For the totality of sales effected on the day in one and the same currency, a single operation for the buying of exchange from the Central Bank shall be entered into;

(d) They shall be settled on the working day following that of their conclusion, without any movement in accounts with foreign banks, to the debit of "settlement accounts in foreign currency," subheading "Central Bank--Operations under Resolution No. 851," and to the credit of the "Bank reserves" account.

6. Sales of exchange by banks to the Central Bank for termination of the deposits shall be effected subject to the following criteria:

(a) they shall be entered into on dates to be indicated in each individual case by the Central Bank, which shall base itself for this purpose on a list of priorities it will issue;

(b) the exchange rate applicable shall be the cover rate for the currency on the particular day, with observance of the provisions of item 5(b);

(c) only one sale to the Central Bank shall be effected each day for each currency;

(d) they shall be settled on the working day following the day on which they were concluded, with the consequent issue of outward payment orders, for settlement of the commitments that led to the exchange sale operations that generated the deposit;

(e) the settlement mentioned in subitem (d) above shall be processed to the debit of "Bank reserves" and to the credit of the account "Settlement accounts in foreign currency," subheading "Central Bank--Operations under Resolution No. 851";

(f) the issuance of the payment orders referred to in subitem (d) shall be effected by the banks by debiting the account "Settlement accounts in foreign currency," subheading "Miscellaneous--Operations under Resolution No. 851," and crediting "Correspondents abroad in foreign currencies," subheading "Movement account," holder "Bank drawn upon."

7. Interest shall be paid on the deposits referred to at a rate equal to:

I. Operations arising from obligations recorded at the Central Bank--the rate applicable to deposits set up under Resolution No. 813 of 4/6/83, based on the LIBOR (the three-month LIBOR shown in this Central Bank's list of rates in effect on the date the deposit was set up will be used). Obligations contracted with foreign government agencies or with their guarantee shall be excepted from this rule; in those cases the rates agreed upon shall prevail.

II. Commercial operations with a payment term of up to 360 days (imports, charter parties, etc.)--the three-month LIBOR ascertained as set out in the preceding paragraph, in effect on the date the deposit was set up, plus a spread of 1 1/2 per cent per annum.

8. The Central Bank may look into the payment of interest at levels different from the level prescribed in subitem II when an operation is involved in which, duly documented and in its judgement, there is evidence of an interest rate at a level differing from those described therein.

9. The interest referred to in item 7 shall be credited to the "Bank reserves" account of the depositing institution:

(a) for the cruzeiro equivalent, converted by applying the cover rate in effect for the currency on the day the deposit is released;

(b) together with the release of the pertinent deposit.

10. Since no simultaneous outward payments will be made in respect of settlement of the sales referred to in item 3, such sales shall not be eligible for exchange cover under GECAM Communication No. 60 of 5/21/68 or No. 68 of 6/11/68, or based on the provisions of Resolution No. 83 of 1/3/68; neither can they be considered for the purpose of covering purchases in the interbank market. However, the prerogative of obtaining exchange cover may be exercised at the time of termination of the deposit, referred to in item 6.

11. The deposit requirement shall not apply to selling operations carried out by banks:

(a) in the interbank market (GECAM Circular Letter No. 185 of 4/30/73);

(b) on the basis of the provisions of Resolution No. 62 of 8/17/67 (items VII and VIII), Resolution No. 84 of 1/3/68, or Resolution No. 807 of 3/10/83;

(c) for payment of transactions covered by letters of credit, guaranteed bills or promissory notes issued or guaranteed by authorized banks, in the case of operations with countries with which Brazil maintains reciprocal credit agreements, and for payment of operations covered by letters of credit in the case of operations under bilateral payments agreements.

NOTE: The provisions of this item do not alter the provisions of subitems (a) and (c) of item 4 of this circular;

(d) for payment of amounts subject to deposits with the Central Bank under Resolution No. 813 of 4/6/83, items II and III;

(e) for payment of arbitrage operations carried out by banks authorized to deal in exchange in Brazil;

(f) for payment of bank charges (commissions, communications expenses, etc.) collected by correspondents abroad of banks authorized to deal in exchange in Brazil;

(g) for payment of imports effected by duty-free shops located in international areas of Brazilian airports and which effect their sales exclusively against payment in foreign currency;

(h) for payment of interest generated by the delay in remittances arising from the present rules.

12. Purchases and sales of exchange for purposes of setting up and terminating deposits shall be contracted with this Bank exclusively in the city where each institution centralizes its operations with this Bank, under the terms of item 4 of DECAM Communication No. 80 of 3/9/79.

13. For purposes of obtaining exchange cover from the Central Bank as referred to in GECAM Communications No. 60 of 5/21/68 and No. 68 of 6/11/68, banks authorized to deal in exchange may consider as sales to customers any cancellations effected on or after 8/1/83 of purchases of foreign exchange arising from exports.

Brasilia, DF, July 29, 1983

José Carlos Madeira Serrano
Director, External Area

REGARDS

JAYR DEZOLT
CHIEF, DEPARTMENT OF INTERNATIONAL ORGANIZATIONS AND AGREEMENTS
BACENCAMBIO

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