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November 18, 1983

To : Members of the Executive Board

From : The Secretary

Subject: Brazil - Supplementary Background Material for GATT

The attached paper has been prepared by the staff to supply more recent background information on Brazil in connection with the forthcoming consultation between the CONTRACTING PARTIES to the GATT and Brazil. In the absence of objection from an Executive Director by the close of business on Tuesday, November 22, 1983, the paper will be transmitted to the CONTRACTING PARTIES for their information and use.

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INTERNATIONAL MONETARY FUND

BRAZIL

Supplementary Background Material for GATT

Prepared by the Western Hemisphere and Exchange and Trade Relations Departments

Approved by S.T. Beza and W.A. Beveridge

November 18, 1983

This supplement updates the Fund report of February 10, 1983 entitled "Brazil--Recent Economic Developments."

I. Recent Economic Developments

1. Introduction

Brazil's economic performance weakened in 1982. Output remained stagnant after falling by 3.5 percent in 1981. The rate of inflation continued at nearly 100 percent, and the external situation worsened markedly. The deterioration of the external position reflected the decline in international commodity prices, weak foreign demand, and economic difficulties in countries that in recent years had become important buyers of Brazilian industrial products. Moreover, domestic demand policies became significantly looser in the course of 1982 as public sector spending rose substantially and there were delays in implementing planned increases in prices and reductions in subsidies. In these circumstances, the abrupt tightening of conditions in international capital markets after August 1982 led to a rapid exhaustion of Brazil's international reserves. For 1982 as a whole, Brazil's balance of payments registered an overall deficit of US$9 billion.

In December 1982 Brazil announced an economic program for the period 1983-85. The program aimed in the short run at reducing external and internal imbalances and in the medium term at bringing about structural changes that would permit a return to high and sustainable rates of growth of output and employment. The basic objectives of the program were to raise domestic savings, especially in the public sector, to reduce dependence on external resources, and to make the economy more efficient by allowing relative prices to adjust, eliminating subsidies and cutting back restrictions. Accordingly, the program called for a reduction in the public sector's financing requirement and a reduction in the current account deficit of the balance of payments. The improvement in the public finances was to be instrumental in scaling down foreign borrowing and reducing the rate of domestic inflation. The program also foresaw reductions in credit subsidies to agriculture, a substantial strengthening of domestic pricing policies (in particular with respect to prices of fuel products), and a tightening of incomes policies.

Effective February 21, 1983, Brazil depreciated its currency by 23 percent in terms of U.S. dollars per cruzeiro. This depreciation, together with the pursuit of a policy of frequent adjustment of the exchange rate in line with domestic inflation, contributed to the positive results obtained in the trade account so far in 1983. The current account deficit in the first six months of 1983 was estimated at under US$4 billion and was slightly larger than had been projected, mainly due to higher-than-projected international interest rates. In spite of the progress made in reducing the current account deficit, Brazil's foreign exchange situation remained very difficult as net capital inflows fell short of the amount expected. The shortfall was particularly large as regards direct foreign investment and short-term financing provided by international banks.

The progress made in external adjustment was not matched on the domestic front. There were delays in the implementation of some adjustment measures, especially public sector expenditure cuts and price adjustments. In addition, tax revenues and capital inflows fell short of anticipated levels. Under these circumstances, inflation exceeded the assumptions underlying the program estimates and output declined. In June 1983 measures began to be implemented to re-establish the thrust of the adjustment effort. These measures included substantive action relating to price, wage, fiscal, and monetary policy, as well as a strengthening of the mechanisms of control over public finances.

2. Fiscal policy

In 1980, public sector financing requirements 1/ declined to 7.1 percent of GDP, from 8.1 percent of GDP in 1979 (Table 2), as interest rate ceilings and rates of adjustment of the outstanding stock of public sector debt were set significantly below the rate of domestic inflation. The re-establishment of more realistic levels for these rates in 1981 explains part of the sharp increase in public sector borrowing which occurred in that year. Nonetheless, this increase was mainly a consequence of a weaker operational performance of the overall public sector, which also continued in 1982. In the latter year, the financing needs reached the equivalent of almost 16 percent of GDP.

The bulk of the financing of the public sector in 1981-83 has come from domestic sources, which provided about 90 percent of the total funds needed. Banks, through direct loans or purchases of government debt instruments, provided more than two thirds of the required domestic financing, with the remainder being accounted for mainly by the nonfinancial private sector. The stock of public debt outside of the Central Bank increased from 4.7 percent of GDP in 1980 to 8.9 percent of GDP in 1982.

1/ Detailed central government accounts currently are only available through 1981 (Table 1).

The borrowing requirements of the public sector for 1983 are expected to increase to about 18.6 percent of GDP, mainly as a result of the effects that the acceleration of inflation (to more than 200 percent) and the depreciation of the exchange rate have on the value of the stock of outstanding public debt. The 1983 public sector operational deficit is estimated to amount to about 2.7 percent of GDP, as against 6.8 percent of GDP in 1982. This reduction is being accomplished through tight limits on the expenditures of the Central Administration and of the state enterprises, and through limits on the access to credit by the state governments and their enterprises. An advisory group, COMOR, was created in August 1983 to coordinate the implementation of the relevant budgets of the public sector and to control the access to credit of the states and municipal governments and other public sector agencies.

3. Monetary policy

Net domestic credit of the banking system grew at an annual average rate of 121 percent in 1981-82. In an effort to moderate the increase in domestic credit expansion and to stimulate foreign borrowing, the Central Bank established quantitative limits on the expansion of lending operations by commercial and investment banks and private companies for 1980, 1981, and 1982. Although the private sector continued to receive the major share of the expansion in net domestic credit, the public sector's share of the stock of credit outstanding increased from about 28 percent in 1979-80 to almost 40 percent in 1982 (Table 3). Total banking system liabilities to the private sector grew in real terms in every year between 1979 and 1982, with the exception of 1980 (Table 4). In 1980, the prefixing of monetary correction at a rate well below the actual rate of inflation produced a low real return on time and savings deposits. As a result, both money and quasi-money fell markedly in real terms. Total private sector holdings of financial assets dropped from about 44 percent of GDP in 1978-79 to 35 percent in 1980. The liberalization of interest rates and the end of the prefixation of monetary correction resulted in an increase in these holdings to 40 percent of GDP in 1981 and to 43 percent of GDP in 1982. Holdings of M_1, however, continued to decline in real terms, while holdings of quasi-money and government indexed bonds increased in real terms.

Monetary developments in 1983 have been affected by the strong demand for credit on the part of the public sector, which resulted in upward pressures on interest rates in the free segment of the market. Relatively slow growth of credit to the private sector and increased inflationary expectations resulted in a very sharp increase in the velocity of circulation of monetary instruments. During the first half of 1983, the real stock of currency and demand deposits (M_1) dropped by 24 percent, and the total liabilities of the banking system to the private sector declined in real terms by an estimated 13 percent.

II. Balance of Payments and Exchange Rate Developments

1. Balance of payments

The deepening recession in industrial countries, a further deterioration of commodity prices, and financial difficulties in countries that had recently become major markets for Brazilian manufactures combined to depress exports in 1982 by 13 percent, to US$20.2 billion, the first decline in exports in 15 years (Tables 5 and 6). Imports also declined, to US$19.4 billion (Table 7), in response partly to the stagnation in domestic activity, and partly to import substitution and conservation measures. The trade surplus amounted only to US$0.8 billion in 1982 compared with US$1.2 billion in 1981. The current account deficit widened markedly in 1982 to US$16.4 billion (7.6 percent of GDP) compared with US$11.7 billion in 1981 (5.8 percent of GDP). This result was due in large part to a sharp increase in net interest payments to US$11.4 billion in 1982 from US$9.2 billion in 1981. Other service payments also increased.

The unsettled conditions in international capital markets during the second half of 1982 directly affected Brazil's access to external finance. As a result, the net inflow of long-term borrowing fell to US$6.1 billion in 1982, compared with US$9.0 billion in 1981. Short-term capital outflows, together with errors and omissions, reached US$1.3 billion in 1982, compared with a net inflow of US$1.2 billion in 1981. The overall balance of payments deficit reached US$9.0 billion in 1982, and fully US$4.2 billion of the deficit was financed by drawing down gross official reserves. In 1981, the balance of payments had been in overall surplus by US$0.8 billion, and gross official reserves had increased by US$0.6 billion.

Brazil's adjustment efforts in 1983 have brought a positive response in the external accounts. Brazil's trade surplus is currently projected to reach US$6.3 billion in 1983, and exports are projected to grow by more than 10 percent in U.S. dollar terms. The performance of manufactured exports has been especially strong, as their value is expected to increase by nearly 14 percent. This favorable performance has reflected primarily the flexible exchange rate policy pursued during 1983, while tax and financial incentives to export activities were maintained. At the same time, merchandise imports are projected to decline by nearly 18 percent in value, with both oil and non-oil imports declining sharply.

The current account deficit for 1983 is now projected to be US$7.7 billion, or 3.5 percent of GDP. Net interest payments are currently projected to total US$9.7 billion in 1983, and service payments, other than interest, will remain nearly constant with respect to the level attained in the previous year. Although the details of Brazil's external financing for 1983 are being finalized, the overall balance of payments is projected to be in equilibrium in 1983.

2. Exchange rate developments

For the past several years, the Brazilian authorities have maintained a policy of frequently depreciating the cruzeiro against the U.S. dollar, in line with the difference between domestic and external inflation. However, in early 1982 the authorities permitted the rate of depreciation of the cruzeiro to lag behind domestic price increases, and the cruzeiro appreciated by nearly 12 percent in real effective terms during the first three quarters (Table 8). Although the pace of depreciation was speeded up in the final quarter of the year, the cruzeiro still appreciated by more than 9 percent in real effective terms during 1982 as a whole.

Effective February 21, 1983, Brazil depreciated its currency by 23 percent in terms of U.S. dollars per cruzeiro. Since that time, the authorities have been depreciating the cruzeiro against the U.S. dollar in line with domestic inflation. Even though the cruzeiro subsequently has appreciated somewhat in real effective terms, at end-August 1983 (the latest date for which the calculation can be made) the cruzeiro had depreciated by 20 percent in real effective terms since end-1982.

III. Exchange and Trade System 1/

Brazil's exchange and trade system involves a number of exchange restrictions and multiple currency practices subject to Fund approval under Article VIII, Sections 2 and 3. 2/ Several changes have been introduced during 1983, including the reduction in March 1983 of exchange allotments available for travel abroad, the reduction of the financial transactions tax (IOF) applicable to the purchase of exchange for certain payments, the reduction of certain export tax rates, and the introduction of an export tax for new categories of exports to the United States. The external payments arrears that emerged in 1983, and which by end-September 1983 had reached a total of US$2,783 million, gave rise to an exchange restriction. On August 1, foreign exchange allocations were centralized. On September 14, the Brazilian authorities introduced further reductions in the general allotment for travel abroad. Notwithstanding these recent changes in the restrictive system, the Brazilian authorities have reaffirmed their intention to eliminate a number of exchange measures by the end of 1983. The authorities also intend to introduce a trade system that would provide protection to domestic activity through tariffs rather than through quantitative restrictions.

1/ A more detailed description is contained in IMF, Annual Report on Exchange Arrangements and Exchange Restrictions, 1983. See also "Brazil--Recent Economic Developments," pp. 67-78.

2/ For a description of those restrictions and practices subject to Fund approval as of end-1982, see "Brazil--Recent Economic Developments," pp. 72-74.

1. Exchange rate system

Since August 1968, Brazil has followed a flexible exchange rate policy under which the exchange rate for the cruzeiro is adjusted at relatively short intervals in terms of its intervention currency, the U.S. dollar. On September 30, 1983, the buying and selling rates quoted by the monetary authorities to the public were Cr$735.00 and Cr$738.00, respectively, per US$1. Rates for other currencies are based on the U.S. dollar rates in Brazil and the rates for the respective currencies in New York and Europe. With specified exceptions, foreign exchange transactions are subject to brokerage fees, calculated on a sliding scale, which result in effective rates of up to 3/16 of 1 percent on either side of the rates set by the monetary authorities.

On the buying side, other effective rates result from a number of arrangements involving the collection of levies in foreign exchange or at the point of exchange settlement at the banks. These include export taxes, special levies ("contribution quotas"), and tax credits (credito-premio) for exports of manufactured goods. On the selling side, a different effective rate arises from a supplementary graduated income tax when the average of actual remittances abroad of profits or dividends in any three-year period is in excess of 12 percent of registered capital and reinvestment. Another effective rate arises from the application of a financial transactions tax of 25 percent to purchases of foreign exchange for imports of goods and services, with specified exemptions.

2. Administration of control

The National Monetary Council is responsible for the formulation of overall foreign exchange policy. In accordance with the guidelines established by the Council, exchange control is operated by the Central Bank's Exchange Department (DECAM), while the control over foreign capital is operated by the Department of Foreign Capital Supervision and Registration (FIRCE); the latter processes the registration of foreign capital. General borrowing abroad requires the prior approval of the Central Bank. The Department for International Operations (DEPIN) is in charge of the management of international reserves. Limits on international borrowing by the public sector are applied by the Secretariat for Control of State-Owned Enterprises (SEST) in the Planning Secretariat of the Presidency of the Republic.

The National Council of Foreign Trade (CONCEX), a board headed by the Minister of Finance, formulates foreign trade policy. The Ministry of Foreign Affairs is the Council's executive organ for dealing with foreign countries, while the Foreign Trade Department of the Banco do Brasil S.A. (CACEX) implements the Council's decisions within Brazil. CACEX issues export and import certificates (guias de exportacao and guias de importacao).

Coffee exports are regulated by the Brazilian Coffee Institute (IBC). The Customs Policy Commission (CPA), established within the Ministry of Finance, is responsible for formulating guidelines for tariff policy. The CPA also decides on changes in customs duties under the provisions of existing legislation. The import policy of the public sector is coordinated by SEST.

3. Imports and import payments

With certain exceptions, 1/ imports may be grouped into the following two broad categories: (1) imports that are free of any requirement to secure prior administrative documentation, including samples without commercial value and certain educational materials, and (2) imports that require an import certificate, which is issued automatically if it conforms to a previously submitted indicative annual import plan. Import certificates are issued on an f.o.b. basis. For certain other imports, the prior approval of CACEX is required; these include goods imported by public bodies, imports for which tariff concessions are being sought, certain imports without exchange cover, goods for use in fairs and trade exhibitions, certain types of used capital goods, and goods to be brought in with foreign financing on a deferred payment basis. For the latter category, it is a prior condition for the granting of import certificates for specified groups of commodities that importers must arrange external financing with specified minimum maturities ranging between three years and eight years, depending on the type of commodity and the amount of financing involved. This policy constitutes an exchange restriction subject to Fund approval. All imports must be registered with CACEX, and imports can be effected only by registered firms or persons. Importers are required to submit to CACEX an annual import program as a basis for requesting import licenses. The Minister of Finance may, on a temporary basis, and in accordance with the directives of the Economic Development Council (EDC) and without prejudice to commitments under LAIA, authorize CACEX to reject applications for import certificates where (1) imports are for speculative stock building purposes; (2) imports are causing or are threatening to cause serious damage to the national economy; or (3) imports originate in or are shipped from countries that impede Brazilian exports. In practice, the CACEX import budget procedure is used to insure the consistency of total imports with other elements of macroeconomic policy.

As a general rule, imports may be cleared through customs before an exchange contract is closed. However, CACEX may approve applications for the payment of imports of any goods at terms of up to 360 days from

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1/ CACEX has suspended the issuance of import licenses for a large number of "superfluous" imports. The importation of a small number of commodities is prohibited. There is also a limitation on the direct import of consumer goods (and on the purchase on the domestic market of any imported consumer goods) by the public and semipublic sector (direct organs of the Government, autonomous agencies, public enterprises, and companies with mixed public and private participation).

the date of shipment, provided that no import duty concessions or other tax concessions are involved. External financing at terms in excess of 360 days for imports, regardless of the classification of the importer and the purpose of the merchandise, must be authorized by the Central Bank, which will evaluate them in the light of foreign debt policy. Registration with FIRCE is also dependent on a ruling by CACEX that Brazilian firms are unable to supply the imports. Payment of the amount financed, and the interest thereon, may be made only upon presentation of a certificate of authorization and the related scheme of payments issued by FIRCE. Prior to shipment of the goods, total payments to suppliers for the nonfinanced amount may not exceed 10 percent of the import value.

4. Exports and export proceeds

Exports are free of licensing requirements but require an export certificate issued by CACEX to ensure compliance with exchange and trade regulations. Some exports are free of controls, but exports of many commodities require prior approval of CACEX, while exports of specified commodities, including certain primary products and raw materials required for domestic consumption, are prohibited or suspended, and exports of certain other commodities are conditional on prior domestic sales. Exports requiring approval include those effected through bilateral accounts, exports without exchange cover, exports on consignment, re-exports, commodities for which minimum export prices are fixed by CACEX, and exports requiring prior authorization by government agencies. Exports of certain commodities, including beef, are subject to an annual quota. Exports of coffee are subject to authorization by the IBC.

The foreign exchange proceeds from most exports are sold at freely negotiated rates within the limits of the official market. Foreign exchange contracts covering such transactions may be closed either prior to the shipment of goods or within ten working days after shipment. The export of hides of wild animals in any form is suspended.

A number of export incentives are in operation, principally for manufactured commodities. Exporters of manufactured goods are eligible for a tax credit on indirect federal and state value-added taxes. Currently, the credit amounts to 11 percent of the f.o.b. value of export. However, a number of exports are subject to export taxes, and a number of exports to the United States (primarily orange juice, textiles, leatherwares, footwear, and certain steel products) are subject to special export taxes. Various financing programs for exporters, some at preferential rates of interest, are provided by the Banco do Brasil S.A. and the commercial banks. These financing facilities include both export financing and the financing of production and warehousing for export, particularly for manufactures. In addition, assistance is provided to exporters in the field of export credit insurance and by way of guarantees.

5. Payments for invisibles

Payments for current invisibles related to income from foreign capital, royalties, and technical assistance are governed by the provisions of the Foreign Investment Law. In addition to certain restrictions on remittances stipulated in that law, limits are placed on remittances of all royalties and technical assistance fees. Payments for current invisibles require the approval of DECAM or FIRCE, which authorizes remittances freely, subject to the presentation of supporting documents as evidence that a bona fide current transaction is involved.

Sales of foreign exchange without the prior approval of the Central Bank in respect of personal expenses connected with travel abroad are permitted up to US$500 a person 18 years old or older; for trips to or initial stopover in Central or South America, the amount is US$100. Applications for purchases of foreign exchange for travel in excess of these limits must be submitted to the Central Bank, which considers each case on its merits.

Remittances abroad of income from foreign direct investments and reinvestments and remittances in respect of royalties and technical assistance are allowed only when the foreign capital concerned, including reinvestments, and the contracts for patents and trademarks, and for technical, scientific, and administrative assistance, are registered at FIRCE in accordance with the established rules. The registration of contracts or deeds for technical assistance or the use of patents or trademarks is subject to approval by the National Institute of Industrial Property. Remittances of interest on loans and credits and of related amortization payments are permitted freely in accordance with the terms stipulated in the respective contract and recorded in the certificate of registration; the remittances are subject to withholding tax on income at a rate of 25 percent, but remitters are eligible for a rebate of 40 percent on the tax paid.

Purchasers of foreign exchange for a number of current invisibles, including travel abroad, are subject to the financial transactions tax (IOF).

Exchange proceeds from current invisibles must be sold through the Banco do Brasil S.A. or the authorized banks at the prevailing market rate. Traveler's checks and foreign bank notes are sold in the manual market. Travelers may bring in and take out domestic and foreign currency notes freely.

6. Changes during 1983

January 1. The interest rates on exports financed in foreign currency were lowered from a range of 8.5-10.0 percent to 7.5-9.0 percent, depending on the type of product and period of financing.

January 6. The coffee contribution quota was increased from US$50 to US$51.50 per 60.5 kg. bag of green coffee. Henceforth, the contribution quota is to be adjusted by 75 percent of the rate of depreciation of the cruzeiro.

January 11. Leasing and sale-leaseback operations with a maturity of at least eight years and fulfilling certain other conditions became eligible for a 20 percent income tax reduction. Remittances of the corresponding leasing fees were exempt from the financial transactions tax.

February 16. For purposes of determining the tax base, commissions, price rebates, contractual penalties, and part of the cost of imports under specified conditions can be deducted from the f.o.b. value of certain exports to the United States. The f.o.b. value of exports without deduction remained the tax base for all other exports to the United States subject to export taxes but the tax rates were raised on certain of these exports.

February 21. A devaluation of the cruzeiro of 23.1 percent from Cr$291.95 per U.S. dollar to Cr$379.54 per U.S. dollar (buying) took effect and the pace of minidevaluations was slowed from at least 1 percentage point above the domestic rate of inflation to at least the domestic rate of inflation. At the same time, export taxes ranging from 9 percent to 20 percent were introduced on a wide range of mostly agricultural, livestock, and forestry products.

March 4. The export tax on cocoa and cocoa products was lowered from 20 percent to 15 percent.

March 11. The basic foreign exchange allowance for tourist travel abroad was reduced from US$2,000 to US$1,000 per trip. The monthly limit of US$300 for personal remittances remained restricted to benefit Brazilians temporarily resident abroad to pursue approved educational programs or to seek medical treatment. As before, the Central Bank could approve amounts in excess of the limits. At the same time, the financial transactions tax (IOF) of 25 percent was withdrawn for sales of travel exchange and business representation expenses.

March 11. Imports of unworked coal and sodium carbonate (neutral) were exempt from the financial transactions tax (IOF). In addition, the IOF tax rate was lowered from 25 percent to 15 percent for a list of specified imports. In the case of such imports from LAIA member countries, the reduction of the IOF rate was from 20 percent to 12 percent.

March 15. The export taxes on soybeans and soybean products were lowered from 20 percent to 5 percent until March 31, 1984. On April 1, 1984 they were to be eliminated.

March 17. The export tax on specified minerals was lowered from 20 percent to 10 percent (for manganese ore and hematite), 8 percent (for itabirite) and zero percent (for iron, alumina, and tungsten ore). The remaining tax on manganese ore, hematite, and itabirite was to be lowered by 1 percentage point a month starting on April 15, 1983 until its complete elimination in November 1983 or January 1984, respectively.

March 28. The "green-yellow drawback" was created which permits trading companies to procure and sell raw materials and intermediate goods free of domestic taxes for transformation into exports within a specified maximum period. A technical export commission (COTEX) was established to authorize and monitor "green-yellow drawback" operations.

March 30. The export tax on cocoa and its products was reduced from 15 percent to 13 percent for cocoa beans and to 10 percent for processed cocoa products. Henceforth, the tax rates on cocoa and its products were to be lowered by 1 percentage point each month until the rates would reach 5 percent and 2 percent, respectively, at the end of November 1983. The rates would remain at that level until March 31, 1984 and be reduced to zero thereafter.

March 31. The tax of 14.41 percent on exports to the United States of prestressed concrete reinforcing wire was withdrawn, while a new tax of 13.42 percent on exports to the United States of specified steel bars was introduced.

April 7. A new compilation of the regulations governing the payment of the financial transactions tax (IOF) was published containing lists of items subject to reduced rates of 15 percent and 12 percent and items subject to a zero rate.

April 13. A tariff exemption valid for six months was granted for the importation of 1 million tons of wheat.

April 13. The import tariffs on beef leather and hides imported by the tanning or processing industries for their own use were suspended for one year.

April 29. Exports of specified steel bars to the United States became subject to a tax of 15.31 percent.

May 1. Brazil ceased to grant multilateral tariff concessions to Argentina, Chile, Mexico, Paraguay, and Uruguay. Henceforth, tariff concessions were to be negotiated bilaterally with these countries, as had been the practice since 1980 with the member countries of the Andean Group (Bolivia, Colombia, Ecuador, Peru, and Venezuela).

May 6. Imports of alumina by aluminum producers were exempt for one year from customs duties.

May 12. The export tax on maize was reduced from 20 percent to 5 percent for shipments effected during the period May 12, 1983-March 31, 1984 and to zero percent thereafter.

May 13. Imports of specified minerals, including iron and steel alloys, copper, nickel, aluminum, lead, and zinc, were subject to prior import control.

May 16. Exports of maize were temporarily suspended, but CACEX indicated that it would in due course publish regulations governing the exportation of the exportable surplus estimated at 330,000 tons in 1983.

May 25. The export tax on citrus fruit pulp was lowered from 10 percent to 5 percent for shipments made between May 25, 1983 and March 31, 1984. From April 1, 1984 this tax rate would be reduced to zero.

May 25. The Central Bank was authorized to waive the collection of the financial transactions tax on imports of services that are required for exports of goods and services. In addition, payments for the renting or leasing of ships to capture tuna or shrimp for export could be exempt from the financial transactions tax until June 30, 1984, with the approval of CACEX. Finally, the financial transactions tax on imports of lead was reduced from 25 percent to 15 percent generally, and from 20 percent to 12 percent for such imports from LAIA member countries enjoying tariff concessions.

June 9. The export tax on orange juice concentrate was lowered to 16.49 percent from 20 percent for shipments registered from June 10, 1983 to April 30, 1985. An additional tax of 3.51 percent was established on exports to the United States. On July 8, the general tax was lowered to 1 percent for shipments registered from July 11, 1983 to April 30, 1984.

June 22. The export tax on tobacco was reduced to 5 percent from 20 percent for shipments registered between June 23, 1983 and March 31, 1984. For shipments registered from April 1, 1984, the rate will be zero.

June 29. The rate of exchange rate depreciation must equal that of monetary correction, which in turn must equal the movement in the General Price Index--Domestic Supply.

June 29. The export tax on cashew nuts was eliminated from June 30, 1983.

July 29. Foreign exchange surrender requirements and an associated foreign exchange allocation system were established. From August 1, foreign exchange transfers abroad for the purpose of discharging sales obligations entered into on or from that date by authorized Brazilian commercial banks are to be effected according to the terms and priorities proscribed by the Central Bank.

September 14. General allowances for travel abroad were reduced from US$1,000 to US$500 per person per trip. Allowances for travel to Latin America were reduced from US$300 to US$100, and separate allowances for children were also reduced. Also exemptions were made to the financial transactions tax including for some financial operations of the Brazilian Development Bank (BNDES).

Table 1. Brazil: Summary Operations of the Central Government

	1978	1979	1980	1981
	(In billions of cruzeiros)			
Current revenues	720.8	1,362.4	2,768.8	6,012.0
Central Administration	353.7	597.9	1,374.2	2,687.2
Autonomous social security funds	307.1	662.6	1,262.0	2,985.8
Extrabudgetary accounts	60.0	101.9	132.6	339.0
Current expenditures	676.8	1,040.8	2,334.7	4,554.6
Central Administration	362.5	523.1	1,288.5	2,227.4
Autonomous social security funds	245.3	402.4	822.0	1,807.0
Extrabudgetary accounts	69.0	115.3	224.2	520.2
Current account surplus or deficit (-)	44.0	321.6	434.1	1,457.4
Central Administration	-8.8	74.8	85.7	459.8
Autonomous social security funds	61.8	260.2	440.0	1,178.8
Extrabudgetary accounts	-9.0	-13.4	-91.6	-181.2
Capital revenues and grants	8.4	26.2	74.8	144.1
Capital expenditures	149.1	378.5	789.2	2,117.6
Central Administration	30.4	18.8	134.1	317.7
Autonomous social security funds	62.8	281.9	541.5	1,548.4
Extrabudgetary accounts	55.9	77.8	113.6	251.5
Overall surplus or deficit (-)	-96.7	-30.7	-280.3	-516.1
Central Administration	-39.1	56.1	-48.2	142.6
Autonomous social security funds	-0.8	-21.2	-100.4	-338.8
Extrabudgetary accounts	-56.8	-65.6	-131.7	-319.9
	(As percent of GDP)			
Total revenues	19.5	22.3	21.7	23.3
Of which: Central Administration	(9.5)	(9.6)	(10.5)	(10.2)
Total expenditures	22.1	22.7	23.8	25.2
Of which: Central Administration	(10.5)	(8.7)	(10.9)	(9.6)
Current account and surplus	1.2	5.2	3.3	5.5
Of which: Central Administration	(-0.2)	(1.2)	(0.7)	(1.7)
Capital expenditures	4.0	6.1	6.0	8.0
Of which: Central Administration	(0.8)	(0.3)	(1.0)	(1.2)
Overall surplus or deficit (-)	-2.6	-0.4	-2.1	-1.9
Of which: Central Administration	(-1.0)	(0.9)	(-0.4)	(0.6)

Source: Getulio Vargas Foundation.

Table 2. Brazil: Identified Financing of the Nonfinancial Public Sector

	1979	1980	1981	1982
	(In billions of cruzeiros)			
Total financing	506.7	927.1	3,310.5	8,372.7
Domestic financing	355.7	874.1	2,997.0	7,095.9
Banking system 1/	327.2	654.2	2,072.2	5,037.2
Central Administration 2/	(161.3)	(384.3)	(355.5)	(1,723.4)
State and local governments 3/	(73.5)	(133.3)	(760.6)	(1,571.9)
Social security funds 4/	(-10.3)	(-41.5)	(-112.7)	(-199.3)
Decentralized agencies	(4.5)	(29.7)	(17.3)	(249.7)
Funds and programs 5/	(-53.3)	(-105.1)	(83.2)	(-370.9)
State enterprises	(151.5)	(253.5)	(968.3)	(2,062.4)
Private sector holdings of public debt	28.5	138.2	909.2	1,853.5
Treasury bills	(-31.3)	(8.6)	(344.0)	(-124.6)
Treasury bonds	(27.6)	(91.3)	(417.7)	(1,484.9)
State and local governments	(32.2)	(38.3)	(147.5)	(493.2)
Other 6/	--	81.7	15.6	205.2
Foreign borrowing 7/	151.0	53.0	313.5	1,276.8
	(In percent of GDP)			
Total financing	8.1	7.1	12.5	15.8
Domestic financing	5.7	6.7	11.3	13.4
Banking system	5.2	5.0	7.8	9.5
Of which:				
Central Administration	(2.6)	(2.9)	(1.3)	(3.2)
State and local governments	(1.2)	(1.0)	(2.9)	(3.0)
State enterprises	(2.4)	(1.9)	(3.7)	(3.9)
Private sector holdings of public debt	0.5	1.1	3.4	3.5
Other	--	0.6	0.1	0.4
Foreign financing	2.4	0.4	1.2	2.4

Sources: Central Bank of Brazil; and Getulio Vargas Foundation.

1/ Calculated on the basis of changes in the stock of net claims on the public sector by the banking system, except for the social security funds and funds and programs (see footnotes 4 and 5 below).

2/ Includes direct loans and the increase in the holdings of public debt by the banking system, as well as direct subsidies granted by the monetary authorities on behalf of the Central Government.

3/ Includes direct loans and the increase in the holdings of state and municipal debt by the banking system.

4/ Only SINPAS. In addition, it includes only the deposits of SINPAS with the monetary system, as commercial bank loans to SINPAS cannot be identified.

5/ Includes both direct central bank financing and financing channeled through the other financial institutions which is consolidated in the banking system accounts.

6/ Changes in floating debt of the state enterprises with the nonfinancial private sector.

7/ Changes in registered external direct debt and debt guaranteed by the Government disbursed by the nonfinancial public sector valued at average exchange rates for 1979-81 (Cr$26.9 = US$1 for 1979, Cr$52.7 = US$1 for 1980, Cr$93.4 = US$1 for 1981), and at a weighted average exchange for 1982 (Cr$216.5 = US$1). Private debt guaranteed by the Government has been included because a large proportion of such guarantees is given on loans to domestic suppliers of the Government, which in turn finances the Government's projects.

Table 3. Brazil: Origin, Destination, and Financing of Bank Credit

	Changes During Year Ended December			
	1979	1980	1981	1982
	(In billions of cruzeiros)			
Total credit	1,265.6	2,309.6	6,441.8	13,044.3
Origin				
Monetary authorities	357.4	587.1	1,190.8	2,409.5
Commercial banks 1/	421.3	788.2	2,311.8	4,533.9
Rest of banking system 1/	512.2	907.0	2,952.0	6,189.9
Other 2/	-25.3	27.3	-12.8	-89.0
Destination				
Public sector	355.7	651.5	1,976.5	5,200.6
Private sector 3/	1,223.5	2,213.7	5,465.5	11,645.5
Official capital and surplus	-155.9	-174.2	-276.0	-543.7
Other 4/	-157.7	-381.4	-724.2	-3,258.1
Financing				
Foreign borrowing	295.4	563.4	1,582.6	3,122.9
Of which: Banks (Resolution 63)	(176.9)	(340.9)	(1,174.6)	(...)
Changes in net foreign assets (increase -)	-110.9	24.1	-367.2	42.2
Liabilities to private sector 5/	1,081.1	1,722.1	5,226.4	9,879.2
	(In percent)			
Total credit	88.9	85.9	128.9	113.3
Origin				
Monetary authorities	147.1	97.8	100.3	101.3
Commercial banks 1/	70.0	77.0	127.6	110.0
Rest of banking system 1/	80.9	79.2	143.8	123.7
Destination				
Public sector	164.1	111.6	160.0	161.9
Private sector 3/	67.2	72.7	103.9	108.6
Financing				
Foreign borrowing	123.1	105.2	144.0	116.5
Of which: Banks (Resolution 63)	(113.8)	(102.6)	(174.5)	(...)
Changes in net foreign assets (increase -)	-46.3	22.1	113.7	6.1
Liabilities to private sector 5/	76.1	68.8	123.7	104.5

Source: Central Bank of Brazil.

1/ Credit granted with own resources, that is, excludes credit granted as a result of interbank transfers.
2/ Includes interbank float.
3/ Includes credit to nonconsolidated financial institutions.
4/ Includes nonmonetary international organizations, net unclassified assets, and interbank float.
5/ Includes liabilities to nonconsolidated financial institutions.

Table 4. Brazil: Private Sector Holdings of Financial Assets

(In billions of cruzeiros)

	December 31				
	1978	1979	1980	1981	1982
Total	1,629.4	2,728.4	4,594.0	10,599.1	22,943.1
By institution					
Monetary system	841.8	1,493.2	2,366.7	4,905.2	9,099.5
Monetary authorities	(361.3)	(705.5)	(1,089.6)	(2,382.4)	(3,996.6)
Commercial banks	(480.5)	(787.7)	(1,277.1)	(2,522.8)	(5,102.9)
Rest of banking system	495.3	858.6	1,591.6	3,952.3	8,934.5
National Development Bank	(0.4)	(0.4)	(0.9)	(4.2)	(12.5)
State development banks	(1.1)	(3.6)	(18.5)	(93.7)	(398.3)
Investment banks	(155.3)	(257.8)	(445.3)	(936.9)	(1,766.0)
Federal Savings Bank	(147.3)	(252.2)	(475.9)	(1,114.6)	(2,459.6)
State savings banks	(70.9)	(120.1)	(216.4)	(490.8)	(1,206.3)
Savings and loan associations	(19.6)	(35.3)	(64.5)	(156.7)	(240.5)
Housing credit companies	(99.7)	(187.6)	(366.0)	(1,041.2)	(2,560.6)
National Housing Bank	(0.7)	(1.0)	(1.6)	(106.9)	(282.2)
National Bank of Cooperative Credit	(0.3)	(0.6)	(2.5)	(7.3)	(8.5)
Finance companies	131.0	186.7	274.6	471.3	1,785.3
Federal Government	131.3	127.7	265.0	1,026.7	2,387.0
State and municipal governments	30.0	62.2	96.1	243.6	736.8
By type of asset					
Money	425.5	722.8	1,240.4	2,078.9	3,687.7
Currency	(94.1)	(167.3)	(290.7)	(523.2)	(997.8)
Demand deposits	(331.4)	(555.5)	(949.7)	(1,555.7)	(2,689.8)
Quasi-money	515.6	902.1	1,555.0	3,873.4	8,888.6
Imports and other prior deposits	71.1	92.0	32.9	15.7	6.8
Deposits on foreign loans 1/	141.6	341.7	592.9	1,462.0	2,274.4
Bank bonds	10.9	12.9	16.1	26.6	29.5
Other bank liabilities	48.1	97.2	186.6	525.3	1,109.4
Private capital and surplus	124.3	183.1	334.2	875.6	2,037.6
Bills of exchange	131.0	186.7	274.6	471.3	1,785.3
Indexed government bonds	38.0	65.6	180.4	598.1	2,083.0
Treasury bills	93.3	62.1	84.6	428.6	304.0
State and municipal bonds	30.0	62.2	96.1	243.6	736.8

Sources: Central Bank of Brazil; and Getulio Vargas Foundation.

1/ Includes an adjustment for changes in the exchange rate.

Table 4. Brazil: Private Sector Holdings of Financial Assets

(In billions of cruzeiros)

	December 31				
	1978	1979	1980	1981	1982
			(As percent of total)		
By institution					
Monetary system	51.7	54.7	51.5	46.3	39.7
Rest of banking system	30.4	31.5	34.6	37.3	38.9
Finance companies	8.0	6.8	6.0	4.4	7.8
Public sector	9.9	7.0	7.9	12.0	13.6
By type of asset					
Money	26.0	26.4	27.0	19.6	16.1
Quasi-money	31.9	33.4	33.8	36.5	38.7
Imports and prior deposits	4.3	3.4	0.7	0.1	--
Deposits on foreign loans	8.7	12.5	12.9	13.8	9.9
Bills of exchange	8.0	6.8	6.0	4.4	7.8
Indexed government bonds	2.3	2.4	3.9	5.6	9.1
Treasury bills	5.7	2.3	1.8	4.0	1.3
Other assets	13.1	12.8	13.9	16.0	17.1
			(Annual percentage changes)		
Total	63.3	67.5	68.4	130.7	116.5
Money	41.0	69.9	71.6	67.6	77.4
Quasi-money	68.0	74.8	72.9	149.1	129.5
Imports and other prior deposits	48.1	29.4	-64.2	-52.3	-56.7
Deposits on foreign loans	184.9	141.3	73.5	146.6	55.6
Bills of exchange	60.5	42.5	47.1	71.6	278.8
Indexed government bonds	78.3	72.6	175.0	231.5	248.3
Treasury bills	54.5	-32.4	38.2	406.6	-29.1
Other assets	85.1	67.3	78.6	164.0	134.2
			(As percent of GDP)		
Total holdings	43.7	43.7	35.1	40.1	43.2
Changes in total holdings	16.9	17.6	14.2	22.7	23.2
Money	11.4	11.6	9.5	7.9	6.9
Quasi-money	13.8	14.5	11.9	14.7	16.7

Sources: Central Bank of Brazil; and Getulio Vargas Foundation.

1/ Includes an adjustment for changes in the exchange rate.

Table 5. Brazil: Summary Balance of Payments

	1978	1979	1980	1981	1982
	(In billions of U.S. dollars)				
Goods, services, and transfers	-7.0	-10.7	-12.9	-11.7	-16.4
Trade balance	-1.0	-2.8	-2.8	1.2	0.8
Exports, f.o.b.	12.7	15.2	20.1	23.3	20.2
Of which: Manufactures	(5.1)	(6.6)	(8.7)	(11.6)	(10.1)
Imports, f.o.b.	-13.7	-18.0	-22.9	-22.1	-19.4
Of which: Petroleum	(-4.2)	(-6.4)	(-9.8)	(-11.0)	(-10.1)
Services and transfers	-6.0	-7.9	-10.1	-12.9	-17.2
Interest (net)	-2.7	-4.2	-6.3	-9.2	-11.4
Reinvested profits	-1.0	-0.7	-0.4	-0.7	-1.6
Other	-2.3	-3.0	-3.4	-3.0	-4.2
Capital movements 1/	11.3	8.0	9.5	12.5	7.4
Long-term capital (net)	10.5	7.0	6.7	11.3	8.7
Direct investment	2.0	2.2	1.6	2.3	2.6
Borrowing	8.5	4.8	5.1	9.0	6.1
Short-term capital, and errors and omissions	0.8	1.0	2.8	1.2	-1.3
Changes in net official reserves 2/	4.3	-2.7	-3.4	0.8	-9.0
	(In billions of U.S. dollars; end of period)				
Memorandum items:					
Gross official reserves	11.9	9.7	6.9	7.5	3.2
External debt (medium- and long-term)	43.5	49.9	53.8	61.4	70.2
Of which: Public external debt 3/	(27.6)	(34.0)	(37.3)	(41.8)	(...)
	(In percent of GDP) 4/				
Current account deficit	3.4	4.6	5.2	5.8	7.6
Merchandise exports	6.1	6.6	7.1	11.6	9.3
Petroleum imports	2.0	2.8	3.5	5.5	4.7
Nonpetroleum imports	4.6	5.0	4.6	5.5	4.3
Debt service	4.3	5.1	5.0	8.8	9.0
Interest	(1.6)	(2.3)	(2.6)	(5.1)	(5.8)
Amortization	(2.7)	(2.8)	(2.4)	(3.7)	(3.2)
Capital movements 1/	5.5	3.5	3.3	6.2	3.4

Sources: Central Bank of Brazil; and Fund staff estimates.

1/ Includes errors and omissions and SDR allocations, here included together with short-term capital. Direct investment is net of Brazilian investment abroad, and borrowing is net of Brazilian lending abroad.
2/ Net of gold monetization and valuation adjustment.
3/ Includes publicly guaranteed debt of the private sector.
4/ GDP series in dollars has been revised for 1981 and later years; figures for years prior to 1981 have not been revised and may not be consistent with the revised series.

Table 6. Brazil: Merchandise Exports, f.o.b., 1978-July 1983

(Value in millions of U.S. dollars, volume in thousands of tons; and unit price in thousands of U.S. dollars per ton)

	1978	1979	1980	1981	1982 Jan/July	1982 Year	1983 Jan/July
Total	12,659.0	15,244.0	20,132.0	23,293.0	11,582.5	20,175.0	12,280.5
Primary products (value)	7,566.0	8,268.0	10,833.0	11,603.0	5,867.1	10,293.0	6,238.5
Coffee (incl. instant coffee)							
Volume (1,000 bags)	12.6	12.0	15.2	15.9	9.6	17.1	9.9
Value	2,295.0	2,326.0	2,773.0	1,761.0	1,180.8	2,113.0	1,271.3
Unit price	182.1	193.8	182.4	110.8	123.0	123.6	128.4
Soy complex							
Volume (million tons)	6.6	6.3	8.9	11.6	5.3	9.0	7.3
Value	1,513.0	1,650.0	2,264.0	3,191.0	1,289.5	2,122.0	1,657.4
Unit price	229.2	261.9	254.4	275.1	243.3	235.8	227.0
Cocoa complex							
Volume (1,000 tons)	223.0	267.0	243.0	250.0	124.4	236.0	123.9
Value	815.0	935.0	694.0	594.0	244.2	427.0	241.6
Unit price	3,654.7	3,501.9	2,856.0	2,376.0	1,963.0	1,809.3	1,950.0
Sugar complex							
Volume (million tons)	2.0	1.8	2.6	2.7	1.1	2.7	1.3
Value	350.0	364.0	1,288.0	1,062.0	285.1	580.0	252.8
Unit price	175.0	202.2	495.4	393.3	259.2	214.8	194.5
Orange juice							
Volume (1,000 tons)	336.0	292.0	401.0	639.0	280.4	523.0	283.0
Value	333.0	282.0	339.0	659.0	308.7	575.0	311.4
Unit price	991.1	965.8	845.4	1,031.3	1,100.9	1,099.4	1,100.4
Meat and chicken							
Volume (1,000 tons)	166.0	171.0	288.0	484.0	300.3	544.0	343.7
Value	234.0	292.0	541.0	871.0	457.4	814.0	487.2
Unit price	1,409.6	1,707.6	1,878.5	1,799.6	1,523.1	1,496.3	1,417.5
Iron ore and other ores							
Volume (million tons)	67.4	77.3	82.7	91.0	52.9	88.2	45.9
Value	1,095.0	1,378.0	1,722.0	1,982.0	1,178.1	2,001.0	999.9
Unit price	16.2	17.8	20.8	21.8	22.3	22.7	21.8
Tobacco in leaf							
Volume (1,000 tons)	109.5	126.3	128.4	131.7	99.0	144.9	96.3
Value	239.0	284.0	284.0	356.0	325.6	463.0	293.3
Unit price	2,182.6	2,248.6	2,211.8	2,703.1	3,288.9	3,195.3	3,045.7
Other (value)	692.0	757.0	928.0	1,127.0	597.7	1,198.0	723.6
Manufactured products (value)	5,093.0	6,976.0	9,299.0	11,690.0	5,715.4	9,882.0	6,042.0
Transport equipment and components (parts, accessories and equipment)	1,149.0	1,468.0	1,907.0	2,499.0	976.7	2,085.0	798.2
Machines and mechanical instruments	447.0	596.0	987.0	1,127.0	693.9	824.0	597.4
Machines, electronic eqpt.	315.0	344.0	459.0	559.0	238.2	404.0	221.4
Manufactured steel products	490.0	818.0	979.0	1,123.0	681.1	1,064.0	877.4
Chemical products	326.0	495.0	657.0	1,067.0	506.1	897.0	623.4
Wood	195.0	279.0	386.0	392.0	163.3	274.0	155.6
Footwear and leather products	459.0	600.0	586.0	776.0	461.4	733.0	538.3
Oil derivatives	149.0	216.0	350.0	966.0	527.1	1,149.0	805.0
Other	1,563.0	2,160.0	2,988.0	3,181.0	1,467.6	2,452.0	1,425.3

Source: Central Bank of Brazil.

Table 7. Brazil: Merchandise Imports, f.o.b., 1978-July 1983

(In millions of U.S. dollars)

	1978	1979	1980	1981	1982 Jan/July	1982 Year	1983 Jan/July
Total	13,683.0	18,084.0	22,955.0	22,091.0	11,373.0	19,395.0	8,650.0
Oil and derivatives	4,196.0	6,434.0	9,844.0	11,006.0	5,830.0	10,120.0	4,725.0
Crude oil							
Volume (1,000 bpd)	901.0	1,000.0	871.0	841.0	800.0	793.0	708.0
Value	4,064.0	6,263.0	9,372.0	10,604.0	5,583.0	9,566.0	4,484.0
US$ per barrel	12.4	17.5	29.5	34.6	33.2	33.0	30.2
Refined products (value)	132.0	171.0	472.0	402.0	247.0	554.0	241.0
Non-oil products	9,487.0	11,650.0	13,111.0	11,085.0	5,543.0	9,275.0	3,925.0
Capital goods	3,553.0	3,775.0	4,381.0	4,023.0	1,989.0	3,272.0	1,364.0
Wheat	541.0	545.0	890.0	832.0	433.0	762.0	376.0
Major raw materials	4,022.0	5,109.0	5,978.0	4,670.0	2,287.0	3,817.0	1,670.0
Steel, nonferrous metals and other ores	(910.0)	(1,148.0)	(1,415.0)	(1,231.0)	(583.0)	(852.0)	(213.0)
Chemical products	(2,119.0)	(2,677.0)	(3,266.0)	(2,268.0)	(1,115.0)	(1,975.0)	(875.0)
Coal	(252.0)	(298.0)	(323.0)	(315.0)	(191.0)	(313.0)	(222.0)
Other raw materials	(741.0)	(986.0)	(974.0)	(856.0)	(398.0)	(677.0)	(360.0)
Other	1,371.0	2,221.0	1,862.0	1,560.0	834.0	1,424.0	515.0

Source: Central Bank of Brazil.

Table 8. Brazil: Nominal and Real Exchange Rate Indices, 1978-83

(In quarterly averages)

Date	Exchange Rate Index (1980=100)	Nominal Effective Exchange Rate Index 1/ (1980=100)	Real Effective Exchange Rate Index 1/ (1980=100)
1978			
Q I	314.7	313.3	121.6
Q II	295.2	294.9	122.6
Q III	276.8	269.0	118.3
Q IV	258.2	247.5	114.9
1979			
Q I	232.8	225.7	111.3
Q II	210.6	208.2	111.2
Q III	187.3	183.2	107.2
Q IV	152.2	150.4	102.0
1980			
Q I	115.2	114.5	88.9
Q II	104.3	104.5	92.7
Q III	95.4	94.4	99.3
Q IV	85.1	86.6	108.7
1981			
Q I	73.7	78.3	116.1
Q II	62.4	71.8	123.2
Q III	52.5	64.3	123.8
Q IV	44.3	53.5	117.2
1982			
Q I	37.9	48.1	121.1
Q II	32.7	43.2	126.8
Q III	27.6	38.9	131.0
Q IV	22.8	33.5	128.1
1983			
Q I	16.5	24.4	111.3
Q II	10.9	16.8	95.9
August	8.3	13.5	101.2

Sources: IMF, International Financial Statistics; and Fund staff estimates.

1/ Trade-weighted.