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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 82/165

10:00 a.m., December 22, 1982

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	M. K. Diallo, Temporary
	C. Taylor
J. de Groote	
B. de Maulde	A. Le Lorier
	M. Teijeiro
	C. Dallara
M. Finaish	
	Jaafar A.
T. Hirao	
R. K. Joyce	M. Casey
A. Kafka	C. Robalino
G. Laske	G. Grosche
G. Lovato	C. P. Caranicas
R. N. Malhotra	A. S. Jayawardena
Y. A. Nimatallah	
J. J. Polak	T. de Vries
A. R. G. Prowse	
	O. Kabbaj
F. Sangare	
M. A. Senior	
J. Sigurdsson	L. Vidvei
Zhang Z.	Wang E.

L. Van Houtven, Secretary
J. A. Kay, Assistant

Also Present

European Department: B. Rose, Deputy Director; M. C. Deppler, P. L. Hedfors, A. Knobl, S. Mitra, H. O. Schmitt. Exchange and Trade Relations Department: C. D. Finch, Director; W. A. Beveridge, Deputy Director; H. M. Flickenschild, G. G. Johnson. Legal Department: G. P. Nicoletopoulos, Director; J. G. Evans, Jr., Deputy General Counsel; A. O. Liuksila. Research Department: W. C. Hood, Economic Counsellor and Director; C. F. Schwartz, Associate Director and Director of Adjustment Studies; G. I. Brown, N. M. Kaibni, G. Khatchadourian, P. R. Menon, B. R. H. S. Rajcoomar. Western Hemisphere Department: E. Wiesner, Director; S. T. Beza, Deputy Director; M. Caiola, A. M. Jul, H. J. O. Struckmeyer, E. V. Zayas. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: S. R. Abiad, E. A. Ajayi, J. R. N. Almeida, S. E. Conrado, J. Delgadillo, T. S. Kivanc, P. Kohnert, H.-S. Lee, P. D. Péroz. Assistants to Executive Directors: H. Arias, R. Bernardo, L. E. J. Coene, T. A. Connors, R. J. J. Costa, C. Flamant, I. Fridriksson, G. Gomel, M. Hull, P. Leeahtam, W. Moerke, J. A. K. Munthali, V. K. S. Nair, K. Okma, Y. Okubo, J. G. Pedersen, D. V. Pritchett, J. Schuijer, H. Suzuki, A. A. Yousef, Zhang X.

1. BRAZIL - PURCHASE TRANSACTION - COMPENSATORY FINANCING FACILITY

The Managing Director made the following statement on December 21, 1982:

I participated yesterday in a meeting in New York arranged by Brazilian authorities with the representatives of some 125 banks, holding some 90 per cent of Brazil's foreign debt. Mr. Delfim Netto, Planning Minister, Mr. Galveas, Finance Minister, Mr. Langoni, the Central Bank President, and Mr. Kafka were present on the Brazilian side. Mr. Delfim Netto and Mr. Galveas gave a broad indication of the economic and financial policies followed by the Brazilian authorities, and I made a presentation of the main lines and general objectives of the Fund program, which, as you know, the staff has been negotiating with the Brazilian authorities and which management approved over the weekend. I also explained how we viewed the financial requirements for the whole of 1983, to give the banks an idea of the way in which their participation would fit into the overall financing plan. I considered it important to provide an overview at an early stage of the discussions, in order to ensure an orderly treatment of Brazil's large external debt.

The data that I presented to the meeting, which will be useful for understanding the figures that have appeared in the press, were as follows:

The current account deficit of Brazil in 1983, as set out in the program, would be $7 billion or slightly less; Brazilian export financing would be $1.1 billion; nondeferrable repayments of bridging loans, granted to Brazil during the recent period, would amount to $3 billion, of which $1 billion is payable to the U.S. Treasury, and $2 billion to foreign banks; and a provision for the reconstitution of gross official reserves amounts to $1.6 billion. The total financing requirement is thus $12.7 billion.

The $1 billion for the U.S. Treasury is the result of gross lending of $1.5 billion, less a repayment of $0.5 billion, which will be covered by the first purchase by Brazil under the compensatory financing facility, if the request is approved by the Board. The original figure of $1.5 billion is accounted for by the $1.2 billion announced by President Reagan during his recent trip to Brazil, and $300 million made available later by the U.S. Treasury and counted as the U.S. share in the BIS operation. The BIS loan will be called in early 1983 and will be repaid fully during the coming year.

I assume that the banks, as they have been asked to do, will roll over all the repayments on medium-term and long-term loans falling due in 1983, amounting to $5.2 billion, of which

$4.7 billion is owed to foreign banks and $0.5 billion to Brazilian bank agencies abroad. The rollover figure of $4 billion mentioned in the press represents only financial loans; the figure of $4.7 billion covers both financial and nonfinancial loans.

If you approve the program under the extended arrangement, which has been worked out at the management and staff level, the sources of financing for the $12.7 billion required in 1983 include: $2.5 billion from the Fund, i.e., $1.6 billion under the extended arrangement and $0.9 billion from a second purchase under the compensatory financing facility, some buffer stock financing which is in the offing, and the utilization of Brazil's reserve tranche; net long-term borrowing from suppliers, international development organizations and governments amounting to $2.0 billion; direct investment, of $1.5 billion; a lengthening of Brazil's terms of payment for oil imports, accounting on the most conservative assumption for $0.7 billion (oil imports are being paid for on a 30-40 day basis, and the authorities have been arranging an extension of those terms); intercompany loans by parent firms to their subsidiaries in Brazil--a reliable source but of course different from direct investment--involving, also on a conservative basis, $0.3 billion.

These sources amount to $7.0 billion, leaving a difference of $5.7 billion "to be found," as I said to the bankers at the meeting. The principal international banks working with the Brazilians have made the the following proposal:

$4.4 billion medium-term and long-term bank loans to be contracted and disbursed during 1983; $1.2 billion from the disbursement in 1983 of medium-term and long-term bank loans already committed in 1982; and $0.1 billion from a very modest resumption of medium-term and long-term lending by Brazilian bank agencies abroad.

The Brazilians organized the work on the financing arrangements involving bank participation in four projects:

The first project is concerned with the amount of new finance ($4.4 billion), an increase of some 7 per cent over the present exposure; 12 banks were asked to coordinate these activities.

The second project refers to the rollover of the 1983 repayments; about a dozen banks have been asked to coordinate this effort.

The third project covers the needed rollover of the stock of short-term trade-related debt, which will amount to $8.8 billion at the end of 1982. It is important to stabilize this debt because work on the longer-term debt could be jeopardized if the short-term debt were reduced. Another group of six or seven banks was selected to work on this matter.

The fourth project deals with the Brazilian bank agencies abroad. The project will be handled by seven or eight banks. The intention is to stabilize the volume of deposits with Brazilian agencies operating on the interbank market; leakages there could also undermine the financial program.

The New York meeting was significant in that it was convoked by a country that had remained current on all its payments. There has been no default or arrears on any payment, be it interest or amortization. Brazil has engaged in what the management and staff believe to be a very strong adjustment program. The Brazilian authorities are trying to organize a smooth operation for their financial program for 1983; this task involves a relatively large, but still manageable, number of banks. I thought it important to work on these figures with the Brazilian authorities, and to give the banks an overview, so that they were not left with the impression that they were being asked to participate in a piecemeal exercise.

I hope that Brazil and the banks will be able to work together to organize the necessary financial arrangements during 1983.

The Executive Directors considered a request from Brazil for a purchase equivalent to SDR 498.75 million under the compensatory financing facility (EBS/82/215, 11/24/82; Cor. 1, 12/22/82; and Sup. 1, 12/22/82).

The staff representative from the Western Hemisphere Department referred to EBS/82/215, Correction 1, with special reference to Table 1 on page 2. When the Fund mission had returned from Brazil recently, he explained, it had brought with it information requiring changes in the last column of Table 1, referring particularly to services and to capital movements. The services account had worsened by some SDR 1.6 billion, mainly because of high interest payments, higher payments for travel, and higher transportation costs. The capital account--net capital inflows--had also worsened by some SDR 3.3 billion compared with the figures shown in the table, reflecting mainly that in September and October expected long-term loans had not materialized. Naturally, there had been no short-term financing by the authorities "below the line." In sum, there had been a deterioration of SDR 4.9 billion compared with the projected figures. The result had been greatly to reduce gross international reserves and the equivalent months of imports, c.i.f.

The staff representative from the Research Department commented on two matters relating to the calculation of the shortfall used as the basis for Brazil's request. The calculation had been based partly on estimated data for the last three months of the shortfall year, namely, October, November, and December 1982. Preliminary data for October exports had become available at the moment that EBS/82/215 had been circulated in late November. The staff mission had recently returned with preliminary data for November 1982. Both the corrected October figure and the preliminary November figure were lower than the estimates assumed in the table. If December exports were to follow the same pattern, the shortfall based on actual data for the calendar year 1982 as a whole would be larger than the SDR 920 million mentioned in the paper. Figures for Brazil's exports became available with a lag of about two months, so that it should be possible to complete the final calculation of the shortfall toward the end of February or the beginning of March 1983.

Tables 3 and 4 in EBS/82/215, Correction 1, the staff representative went on, contained corrections for the items "cocoa exports" and "other exports." There were consequential changes for items wherever cocoa was included in subtotals; the error had arisen because values had been converted incorrectly from U.S. dollars to SDRs. The estimated shortfall, however, remained unchanged at SDR 920 million because the value of "total exports" had been converted correctly. The geometric shortfall for cocoa, however, had been reduced from SDR 90 million to SDR 34 million, and the figure for "other exports" had been reduced from an excess of SDR 57 million to a shortfall of SDR 27 million. The changes would not alter the thrust of the argument in favor of a drawing under the compensatory financing facility by Brazil.

Mr. Kafka remarked that the staff had prepared an exceptionally clear and comprehensive paper, and that he was deeply grateful for the work that it had undertaken. He had nothing to add to the staff's observations.

Mr. Dallara apologized for Mr. Erb's absence; he had very much wished to be present. He did support Brazil's request for a drawing under the compensatory financing facility in an amount equivalent to 50 per cent of quota. The request clearly met all the requirements of the decision for such drawings. His chair had in the past consistently stressed the importance that it attached to underlying policies when a temporary shortfall in export earnings was embedded in a broader payments problem, even when the request had been for no more than 50 per cent of quota. Accordingly, he was pleased to note, on the basis of the information contained in the staff papers and in the additional information provided by the Chairman, that Brazil was taking a broad range of measures to address its underlying payments problems.

Mr. Grosche said that he too could support the decision. All the conditions necessary for approval seemed to be met. Balance of payments need was evident. Export earnings in the shortfall year ending December 31, 1982 were estimated to decline by 8 per cent owing to external developments largely beyond the control of the authorities. Insofar as cooperation with the Fund was concerned, he agreed with the staff that cooperation with the Fund involved understandings regarding the eventual elimination of unapproved exchange practices. He looked forward to hearing what the Brazilian authorities intended to do in the course of the discussions on the forthcoming extended arrangement.

Mr. Sigurdsson remarked that Brazil was as dependent as other countries on fluctuations in the markets for primary products. Consequently, in the present circumstances of unparalleled weakness in the primary products market, Brazil had incurred a substantial export shortfall. The depression had worsened in the past two years, leading Brazil to experience a substantial fall in exports of manufactures. The current account deficit was clearly no longer sustainable. There had, however, been a trade surplus in 1981, and another, smaller one in 1982. Consequently, the entire current account deficit was the result of a deficit on services account, which in turn was mainly accounted for by interest payments on external debt, amounting in 1982 to some 50 per cent of total exports. He was led to wonder whether the effects of the higher interest rate on the international capital markets might not have been as serious as export shortfalls for Brazil during 1982. He would be interested to know from the staff to what extent the two-and-a-half times increase in interest payments in SDR terms during the period 1979-82 had resulted from higher interest rates and adverse exchange rate movements on the one hand, and from a growing stock of debt on the other. It would also be interesting to know how much effect a one percentage point fall in international interest rates would have on Brazil's interest burden.

More than a year had elapsed since the most recent Article IV consultation with Brazil, Mr. Sigurdsson noted. Consequently, Executive Directors' perception of the Brazilian economy might be out of date, and he would welcome the additional information that would no doubt be forthcoming in the weeks ahead. He was glad to hear from the Managing Director that agreement had been reached on a program for Brazil to be supported by the Fund. The fact that an agreement had been reached and that the Fund was about to release resources under the compensatory financing facility would help to bolster confidence in the Brazilian economy and help it to overcome other financial difficulties. Although the information provided in EBS/82/215 was only partial, it gave a picture of the strong productive base that Brazil had created, and it gave rise to the expectation that the country would rebound vigorously with the recovery of the world economy. He noted that Brazil retained a number of exchange restrictions requiring Fund approval; an appropriate place to deal with them would be the forthcoming discussion on the extended Fund arrangement. The request met all the requirements of a decision under the compensatory financing facility; he therefore warmly supported the staff proposal.

Mr. Taylor stated that he too could support Brazil's request. There could be little doubt that the test of cooperation had been satisfied, in view of the announcement of agreement with the Fund on an extended Fund arrangement. Brazil had not made any purchases from the Fund since May 1968, and had completed all outstanding repurchases by August 1970. Brazil could therefore not be regarded as an indigent client. However, like Mr. Sigurdsson, he noted that Brazil currently maintained multiple currency practices not approved under Article VIII, including some measures introduced fairly recently. Like Mr. Sigurdsson, he assumed that cooperation with the Fund would involve understandings regarding the elimination of those unapproved exchange restrictions reasonably soon, and he hoped that the matter would be satisfactorily covered at the time of the discussion on the extended Fund arrangement.

In the matter of export projections, Mr. Taylor noted that the increase in the volume of soybean exports was expected to make an important contribution in 1983 and 1984 because they represented 40 per cent of the overall shortfall. He wondered whether world demand would be strong enough to permit an increase of export volume by 21 per cent in 1983. For other commodities, the projected shortfalls were mainly explained by price factors. The increases in price for most of the commodities for 1983, denominated in SDRs, were quite modest, but he had noted that the staff expected sugar prices to rise by 32 per cent and coffee prices by 27 per cent above the 1982 level. The staff representative had recently said that although world sugar prices were at rock-bottom levels, the situation was unlikely to improve for the next two or three years. He therefore wondered whether there was not some inconsistency in the forecast.

In projecting the volume of sugar sales, the staff had said that it expected the volume to rise slightly during 1983, but there had been press reports that Brazil would not resume sugar sales until conditions showed a significant improvement, Mr. Taylor noted. He had noted that President Reagan had promised to waive the sugar quotas imposed by the U.S. authorities in 1981, and he wondered whether that promise had some bearing on the projections. Brazil was obligated to constitute sizable stocks of sugar during 1982 and 1983 under the International Sugar Agreement, and he supposed that the country was likely to wish to make a drawing on the Fund under the buffer stock financing facility. There had however been no reference to that point in the staff paper.

In brief, Mr. Taylor concluded, he considered the projection for exports in 1982 and 1983 to be rather optimistic. World recovery was still uncertain in some of Brazil's key markets, many of which had their own problems. Nevertheless, he greatly welcomed the news that there was shortly to be an extended Fund arrangement with Brazil, and he looked forward to the more detailed discussions at that time.

Mr. Senior stated that he wholly supported Brazil's request for a purchase equivalent to SDR 498.75 million under the compensatory financing facility. The request clearly met all the requirements. While the purchase was based on estimated data for the last three months of 1982, the estimated shortfall was more than 80 per cent larger than the requested purchase, leaving an ample margin for any deviations that might later appear. In any event, Brazil had represented that it would promptly repurchase the amount of overcompensation, if any, once actual data were furnished.

During 1982, Mr. Senior considered, the real balance of payments had sharply deteriorated, shifting from a surplus of about $27 billion in 1981 to a deficit several times larger in 1982. Even though imports were expected to decline by almost 10 per cent in value, stagnation in industrial countries and adverse conditions in developing countries together were likely to bring about a decline in Brazil's exports for the first time since 1967. Together with rapidly rising interest payments, the deterioration in the situation was expected to result in a current account deficit equal to some 5.1 per cent of GDP, compared with 3.9 per cent in 1981. Moreover, Brazil's net and gross reserves had declined sharply during 1982, so that there was clearly a balance of payments need. The estimated shortfall in Brazil's export earnings was largely beyond the control of the authorities, and, as the staff expected a recovery, the shortfall was temporary.

Brazil had been negotiating with the Fund for an arrangement that clearly showed its intention to cooperate with the institution, Mr. Senior mentioned. Moreover, Brazil had been in permanent contact with the Fund for many years and had always cooperated with the Fund in efforts to find appropriate solutions for its balance of payments difficulties, when needed. He was therefore not quite clear about the meaning of the staff's statement to the effect that the staff had stressed that cooperation with the Fund involved understandings regarding the eventual elimination of unapproved exchange practices. The requested purchase under the compensatory financing facility covered only the first 50 per cent of quota and should therefore not involve any strict test of cooperation. While he understood that it was the duty of the Fund to encourage the elimination of multiple currency practices, he was not convinced that it should use the elimination of unapproved exchange practices as a condition for the use of Fund resources. Meanwhile, he gave unqualified support to Brazil's request.

Mr. Finaish, Mr. de Maulde, and Mr. Nimatallah all stated that the Brazilian request met all the requirements, and that they therefore supported the proposed decision.

Mr. Hirao commented that all the requirements for a drawing under the compensatory financing facility were met. Exports in the shortfall year were expected to decline by some 8 per cent, and the shortfall was largely attributable to circumstances beyond the authorities' control. The current account deficit was expected to rise to 5.1 per cent of GDP in 1982, although the Brazilian authorities had taken substantial adjustment measures since late 1980. He looked forward to discussing the adjustment program when the proposals for an extended Fund arrangement with Brazil were brought before the Executive Board. Meanwhile, he warmly supported the proposed decision.

Mr. Casey remarked that he too could support the proposed decision, and that he had few comments. As the request had originally been set out in EBS/82/215, he would have had some questions about balance of payments need and the size of external indebtedness along the lines of those raised by Mr. Sigurdsson. In the light of the information given by the staff, the questions had largely evaporated. Balance of payments need had been clearly established. However, he was rather concerned that such large statistical revisions could occur in such a comparatively short time. He presumed that the timing of capital inflows from the banking system was partly responsible, although there must be other changes to cause such great revisions in the balance of payments. In particular, he would be interested to know whether the capital inflows that had dried up in 1982 were likely to start again in 1983.

On a more general point, Mr. Casey observed that the present request in a sense presupposed that the Brazilian authorities would in future cooperate with the Fund in an effort to solve their balance of payments problems. Even though the request was for not more than 50 per cent of quota, the test of cooperation was what might be called forward looking. He had of course no doubt that the cooperation would be forthcoming in connection with the proposed extended arrangement, and that it would extend to the elimination of the unapproved exchange restrictions. Meanwhile, the present request did require something of an act of faith on the part of the Fund, especially as the 1982 balance of payments data had been revised so drastically. He hoped that the changes in data would not require the paper for the extended arrangement to be rewritten. He also presumed that the authorities intended to request a second purchase under the compensatory financing facility once the extended arrangement was in place.

If the Brazilian authorities did request a drawing under the buffer stock financing facility, Mr. Casey remarked, some care would be needed to avoid the possibility of double compensation if the commodity in question had already been counted as contributing to the shortfall under the compensatory financing facility. Finally, although the risk of overcompensation under the compensatory financing facility was negligible, he wondered whether the Fund would nevertheless adopt the suggestion made recently by Mr. de Groote and others to the effect that the authorities of the drawing country should be more actively alerted to the risk of overcompensation and the need to provide data on a timely basis.

Mr. Prowse commented that, like others, he had found the request both straightforward and simple. There was clearly a shortfall beyond the control of the authorities, as well as a balance of payments need, and he could well accept the staff projections, which showed that the shortfall was only temporary.

Nevertheless, in Table 4 on page 7 of EBS/82/215, Correction 1, showing value, volume, and unit value indices by major commodities for the years 1977 through 1984, 1981 showed an extraordinary increase over 1980 both in volume and in value. It would be interesting to have some explanation of that performance in 1981, when it was so shortly followed by the problems of 1982.

He had been particularly interested in the staff's observations on sugar, Mr. Prowse stated. Not long previously, the staff representative from the Research Department had made some useful observations on the sugar industry, which could well have been reproduced, at least in part, in the present paper on Brazil's request. Mr. Taylor had raised a question regarding the assumptions for the projected recovery of the volume of sugar exports in the first and second postshortfall years, amounting to some 8 per cent and 26 per cent, respectively. While he hoped that those projections would in fact be close to reality, he would be interested to know whether the staff had anything more to say than it had written on page 10 of EBS/82/215 about the projected sugar price increases. For instance, had the staff made any assumptions about subsidized production of sugar elsewhere, or about possible constraints on European supplies? Although he well understood that nothing that the staff had to say about sugar could affect the overall shortfall, he would have liked to have further information about the export markets not only for sugar but for some other commodities as well.

On the manufacturing side, Mr. Prowse observed, the staff had written, on page 15, that the appreciation in real terms of the cruzeiro during the first eight months of 1982 had adversely affected the country's competitiveness. While the manufacturing position was not critical for the estimation of the overall shortfall, he would certainly wish to look at the question of the exchange rate when the request for the extended Fund arrangement came before Executive Directors. Meanwhile, he fully supported the proposed decision.

Mr. de Groote, Mr. Malhotra, Mr. Zhang, and Mr. Teijeiro all said that they could support the proposed decision. All conditions for the purchase were met, and the requested transaction was the first step in the direction of closer financial cooperation between Brazil and the Fund.

Mr. Caranicas commented that, like others, he found that all the elements required for approval of a drawing under the compensatory financing facility were present in the request. He had noted that Mr. Casey, commenting on cooperation between Brazil and the Fund, had remarked that Brazil ought to be warned about the possible risks of overcompensation. While Mr. Casey was technically correct, the Fund was hardly taking much risk in demonstrating faith in Brazil, since Brazil had not made a drawing on the compensatory financing facility for the past 20 years, and had not used the Fund's resources since 1968. Brazil had always cooperated fully with the Fund, if only in the presence of Mr. Kafka on the Executive Board for the past 15 years.

Mr. Polak stated that he would support the proposed decision. He also wished to support the suggestion made by Mr. Casey regarding the risk of overcompensation. Although in the present instance the risk was small, the opportunity would be a good one for introducing the procedure recently suggested by the Chairman.

Mr. Kabbaj said that he too could support the proposed decision.

The staff representative from the Western Hemisphere Department, replying to questions on the debt service burden, mentioned that during the years 1980-82, Brazil's stock of debt had risen by 26 per cent in dollar terms, while interest payments had risen by 73 per cent. Another figure that showed the extent to which debt servicing was influenced by the level of international interest rates was that only some 40 per cent of the entire debt service was on account of repayment of principal, the rest being interest payments. One percentage point of variation in the international interest rate applicable to Brazil's debt was equal to about $550 million per year.

Replying to Mr. Casey's question on why there had been such large revisions in the balance of payments figures, the staff representative explained that the revisions referred mainly to an underestimation of interest payments, together with large increases in the cost of transportation and travel. Much of the travel was so-called border travel to neighboring countries, reflecting differences in exchange rates between those countries and Brazil. The authorities had taken immediate measures to reduce such payments, but the amount absorbed in that way had still risen. Most of the increase that Mr. Casey referred to did however consist of long-term capital movements. The staff, and indeed the Brazilian authorities, had counted on extrapolating the past trend. When the expected inflow of capital movements had not taken place, the monetary authorities had been compelled to borrow at short maturities, which were counted "below the line" and were therefore reflected in the overall balance of payments deficit.

In the papers that the staff was to present for the extended arrangement, Directors would see clearly that, in view of the deterioration of the economic situation in the last quarter of 1982, the authorities had already taken many of the measures that were intended to form part of the program for 1983 and beyond, the staff representative explained. The authorities had responded forcefully to the deterioration in the situation, so that most of the measures that they had contemplated bringing forward as part of the program related to the extended arrangement with the Fund had already been put in place. Another set of measures was to be adopted before the beginning of the extended arrangement.

Responding to Mr. Prowse's question why there had been such a strong growth of exports in 1981, the staff representative mentioned that much of the increase had come from growth in manufactures, reflecting Brazil's success in capturing new markets. Brazilian exporters had been active not only in diversifying their range of products but also in penetrating into new markets, particularly in the Middle East and in Africa. Table 4 showed that there had been strong increases in sales of footwear, soybeans, orange juice, and iron ore.

As to the exchange rate policy followed by the Brazilian authorities, the staff representative from the Western Hemisphere Department observed that there had been an appreciation of the cruzeiro in terms both of the U.S. dollar and of the basket composed of the principal currencies of Brazil's trading partners in the early part of 1982. The authorities had however for several months taken steps to accelerate the rate of devaluation until it was as much as one-and-a half percentage points above the rate of inflation. By the end of 1982, the appreciation with respect to the U.S. dollar would probably have disappeared, and the position with respect to the trading partners would have moved in the same direction. The exchange rate policy that the authorities intended to follow in 1983 was designed to achieve a one percentage point increase in the rate of devaluation per month over the rate of domestic inflation.

The staff representative from the Research Department replied to Mr. Taylor's question whether the projection of a 21 per cent increase in the volume of exports of soybeans was reasonable. For Brazil, the projected increase represented no more than a partial recovery from the adverse effects on export volume sustained in 1982 because of adverse weather. While the market for soybeans was still weak, as reflected in the predicted price decline shown in Table 4, Brazil ought to be able to achieve a return to the former level of exports, at the lower price.

Executive Directors had also asked questions about the price and volume of sugar exports for the coming two years, the staff representative noted. It was certainly true that the world outlook for sugar was not encouraging. However, what was at issue was exports in 1984. It was expected that by that time adjustments would have been made both on the supply side and on the demand side, indicating that higher prices should materialize. While the percentage figures seemed quite large, in absolute terms all that the staff was predicting was a price of 11 cents per pound for sugar by 1984, compared to the 13 cents a pound floor price under the International Sugar Agreement at present. Moreover, a part of the sugar exported by Brazil was destined for the United States at preferential prices that might be as much as three times as high as those currently obtained on the free market. While the quantity that would benefit from the higher price was much less than Brazil had been accustomed to exporting to the United States, the arrangement did have the effect of increasing the average value of sugar exported by Brazil. With the imposition of quotas in the United States, Brazil had been unable to find markets for all the sugar that it had in the past exported to that country. Brazil had been used to exporting 875,000 tons per year of sugar to the United States, and the present quota was only 370,000 tons. The projected volume increase of 4 per cent in 1983 was based on the assumption that Brazil would be able to find markets for its exportable sugar supplies.

While he could say nothing about the possibility of Brazil's requesting a drawing from the Fund under the buffer stock financing facility in connection with special stocks of sugar, the staff representative observed, he could assure Executive Directors that there were safeguards against the possibility of double compensation. The Executive Board had discussed them at some length in connection with the International Sugar Agreement in 1977.

On the question of a possible early repurchase in the event of over-compensation, the staff representative went on, Brazil had been the first country to be notified in accordance with the procedure by the Executive Board on November 8, 1982, when the Directors had last discussed the question of overcompensation. The language of the letter to Brazil had been "Please note that as the amount of purchase under the compensatory financing facility is based on partly estimated data, there is the possibility that on the basis of actual data, Brazil will have been overcompensated in this purchase. In that event, overcompensation is to be reversed by a repurchase, which is to be made promptly. The Executive Board considers the prompt reversal of overcompensation calls for discharge of the repurchase within 30 days after the member has been notified by the Fund of the amount by which it had been overcompensated. It is important that sufficient resources are available to make prompt repurchase should there have been overcompensation."

The letter had continued: "The Executive Board also considers it important that actual data for the months of the shortfall year for which the data were estimated be supplied to the Fund as rapidly as possible, so that the staff is able to determine the actual shortfall and whether there is any overcompensation in this purchase," the staff representative from the Research Department concluded. "For this purchase, data were estimated for three months through December 1982. The Fund would appreciate receiving actual data within three months of the date of Board approval; that is, by March 22, 1983."

The Deputy Director of the Exchange and Trade Relations Department, replying to observations on the existence of unapproved restrictions in Brazil, remarked that every use of the Fund's resources had to be consistent with the Articles. One of the Articles related to use of restrictions on a temporary basis for balance of payments reasons only. In dealing with compensatory purchases under 50 per cent, the practice had been to ensure that the member fully appreciated that cooperation with the Fund involved understandings regarding the eventual elimination of unapproved restrictions. That was the language referred to in the third paragraph of page 18. For countries drawing under the compensatory facility, it had not always been the practice to insist on early action to remove or eliminate restrictions. The standard practice had been for the staff to provide information to the Directors on the state of and developments in the restrictive system. The information had included statements along the lines of the one included on page 18, relating the issue of cooperation to the issue of unapproved restrictions. In the present case, the matter of the unapproved restriction had been an important element for the discussion of the program which could address that matter. Agreement had in any event been reached in principle on the eventual elimination of the restrictions. Mr. Taylor's understanding of the situation was perfectly correct.

Mr. Kafka thanked his colleagues for the warm support for the requested drawing under the compensatory financing facility, which he would report to his authorities. Brazil had been the first country to use the compensatory financing facility in 1963. As to sugar, Brazil had constituted the stock that it was obliged to form under the International Sugar Agreement by June 30, 1982, amounting to 160,000 tons. The country was in the process of increasing that stock to the maximum that it was required to hold until the end of 1984. He assumed that Brazil would not request a buffer stock drawing before the second compensatory tranche, but at that time the question of double compensation would have to be taken into account. Insofar as overcompensation was concerned, the authorities were fully aware of their obligation; the matter was quite theoretical in the present instance.

Regarding the unapproved restrictions, Mr. Kafka explained that for the authorities it was really a matter of phasing out such items as export rebates, tax rebates, and similar devices. A number of them were not strictly unapproved; nevertheless, they had been a bone of contention between the Fund and Brazil for a long time because the Brazilian authorities believed that they were not really restrictions and the Fund believed that they were. The authorities intended to invite a Fund lawyer to visit Brazil to discuss the matter in the coming year. If it was concluded that Brazil was in fact using multiple currency practices, other ways of dealing with the problem would be found.

The Executive Board then took the following decision:

Purchase Transaction - Compensatory Financing Facility

1. The Fund has received a request from the Government of Brazil for a purchase of SDR 498.75 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representations of Brazil and approves the purchase in accordance with the request.

Decision No. 7278-(82/165), adopted
December 22, 1982

2. SWEDEN - 1982 SPECIAL CONSULTATION UNDER ARTICLE IV

The Executive Directors, meeting in restricted session, considered the staff report for the 1982 special consultation under Article IV with Sweden (EBS/82/222, 12/3/82).

They agreed to continue their discussion in the afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/82/164 (12/20/82) and EBM/82/165 (12/22/82).

3. STAFF TRAVEL ALLOWANCES

The Executive Board approves the recommendation set forth in EBAP/82/436 (12/16/82).

Adopted December 20, 1982

4. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/82/438 (12/20/82), and by an Advisor to an Executive Director as set forth in EBAP/82/353, Supplement 1 (12/20/82), is approved.

5. STAFF TRAVEL

Travel by the Managing Director as set forth in EBAP/82/439 (12/20/82) is approved.

APPROVED: May 23, 1983

LEO VAN HOUTVEN
Secretary