

EBD/82/238

October 5, 1982

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: Brazil - Recent Economic Measures

The Secretary has received the following memorandum dated October 4, 1982 from Mr. Kafka:

Please inform the Board that:

The strong decline in international commodity prices and the deteriorating world economic situation are seriously affecting Brazilian exports. In order to produce an immediate improvement in the trade surplus, the Brazilian authorities have adopted recently a number of measures in the monetary, trade, and exchange areas. These measures are additional to the earlier curtailment of the expenditures of the central administration and of the large state enterprise sector. They are expected to be complemented shortly by further policy action.

The recently introduced measures comprise:

I. Measures affecting the capacity of financial institutions to lend domestic resources:

1. Legal reserve requirements on sight deposits in the South Central regions were raised temporarily to end-December 1982 from 35 per cent to 45 per cent in the case of large banks, from 31 per cent to 40 per cent in the case of medium-sized banks, and from 28 per cent to 36 per cent in the case of small banks.

2. Commercial, development, and investment banks were obliged to sterilize in government securities 15 per cent of the increase in term deposits over the amount reached at the end of August 1982, until a legal reserve requirement of 5 per cent on the entire amount of such deposits is achieved; term deposits had not been subject to any reserve requirement before.

3. With some exemptions, finance companies can henceforth lend only to individuals.

II. Trade measures (including in particular the prohibition of the importation of a number of items manufactured nationally and some superfluous goods) and exchange measures, affecting essentially the amounts and conditions of sales of foreign exchange for travel abroad and for certain remittances;

1. The maximum allowance of the equivalent of US\$2,000 for travel abroad--which had been doubled earlier this year--is now restricted to persons 18 years or older, and to intervals of not less than six months. Of this amount, the equivalent of US\$100 will be given in cash or traveler's checks in Brazil, the remainder will be in the form of payment orders.

2. The above allowance will be reduced to the equivalent of US\$500 if travel is to South or Central America, or if the initial stopover is in those regions.

3. The above amounts will be reduced by one half for minors between the age of 2 and 18 years, and will disappear for children below the age of 2 years.

4. The maximum amount of the equivalent of US\$20,000 per year that exporting companies could obtain for foreign travel and representation expenses, irrespective of the value of their exports, has now been tied to a minimum export value of US\$200,000.

5. Sales of foreign exchange to Brazilians living abroad temporarily of up to the equivalent of US\$300 per month will henceforth only be made for educational or health purposes.

6. Since the Brazilian authorities regard these quantitative limitations as a means to prevent disguised capital outflows, the measures admit exceptions at the discretion of the Central Bank.

7. The scope of the tax on financial operations of 25 per cent, which since December 1980 has been applied to certain merchandise imports, is extended to cover also the sales of foreign exchange for foreign travel.

8. Furthermore, since August of this year, my authorities have accelerated the rate of depreciation of the cruzeiro; they expect that a continuation of this policy during the remainder of this year will offset the real effective appreciation that occurred earlier this year.