

November 17, 1981 - 81/200

**The Chairman's Summing Up at the Conclusion of the
1981 Article IV Consultation with Brazil
Executive Board Meeting 81/141 - November 13, 1981**

In concluding this comprehensive and interesting discussion of the 1981 Article IV consultation with Brazil, I would note that there was general agreement with the thrust of the staff appraisal. Executive Directors warmly commended the substantial adjustment measures taken by the Brazilian authorities since late 1980 to deal with the internal and external imbalances that had developed. These measures resulted in a considerable strengthening of Brazil's balance of payments; through October 1981, there was a trade surplus of US\$600 million, in lieu of the past years' trade deficits. As could be expected, the tightening of domestic demand led to a slowdown in economic growth in 1981, but some improvement in this area may develop next year. Directors also commented favorably on the freeing of the economy from price controls and restrictions and other steps, such as a reduction in the number of state enterprises, actions that will contribute to an improvement in the overall economic efficiency.

Directors welcomed Brazil's efforts to reduce domestic demand pressures. They commended the Government's quick action to raise the buoyancy of the tax system. They noted that the scheduled reduction in export subsidies should help to improve the government revenue base next year. The steps to rehabilitate the social security system were also welcomed. Directors strongly emphasized the importance of slowing the growth of public spending for the anti-inflationary effort, particularly if the momentum toward a declining rate of price increases was to be maintained.

Directors supported the tightening of monetary policy that had been taking place. They welcomed the partial freeing of domestic interest rates as a means to strengthen Brazil's external position and encourage domestic savings. However, they noted that substantial interest subsidies still remained in effect and urged the authorities to improve monetary control through the continued reduction in those subsidies.

On the exchange rate management pursued since late 1980, Directors noted that the policy of depreciating the cruzeiro at frequent intervals in line with the rate of domestic inflation should provide for a real depreciation of the currency and thus facilitate the gradual elimination of export subsidies and import restrictions. A number of Executive Directors regretted the introduction of new restrictive practices. They took note of the schedule for the elimination of the tax credits on industrial exports and urged the authorities to abolish those and other exchange restrictions.

Directors commented that Brazil's wage formula appeared to have hampered efforts to reduce inflation and probably also had had an adverse effect on employment. They encouraged the authorities to pursue their efforts to find ways to make wage policy more flexible.

Directors noted that Brazil's efforts to reduce the country's dependence on imported oil were beginning to bear fruit. They felt that this outcome was, to a considerable extent, due to the adoption of appropriate pricing policies, and they urged the authorities to continue such policies.

To sum up, Directors concluded that Brazil's present policies had been successful in bringing about substantial external adjustment and in initiating a reduction in inflation. They urged the authorities to continue with these policies and to strengthen them as required to restore external and internal balance without unnecessary delay. It was also noted that the management of Brazil's substantial external debt would be eased with a successful implementation of the stabilization effort.