DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBD/86/57

March 3, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Brazil - Financial Measures

The Fund has received the following communication dated February 28, 1986 from the Central Bank of Brazil:

After the fiscal reform of last December, a fiscal surplus has been attained in the first two months of this year. The real overall deficit of the public sector calculated in U.S. dollars and measured by the growth of the net total debt compared with GDP, was reduced from 6.1 percent in 1983 to 4.4 percent in 1984, to 2.8 percent in 1985 and is expected to be less than 0.5 percent in 1986. The Government is strongly committed to completely eliminating the fiscal deficit.

The generalized indexation of wages, prices, and financial instruments has perversely maintained the high levels of inflation in spite of fiscal adjustment measures. To eliminate the inertial component of inflation the following deindexation measures have been adopted:

a. The cruzeiro was replaced by a new currency, the cruzado, at the rate of 1000 cruzeiros per cruzado.

b. Prices have been temporarily frozen.

c. Wages were converted from cruzeiros into cruzados at their average real value in the previous six months. Wage negotiations will take place on an annual basis henceforth.

d. Future payments previously contracted in cruzeiros will be converted into cruzados according to a conversion factor that depreciates the cruzeiro vis-à-vis the cruzado daily at a rate of approximately 14.51 per month.

- over -

e. The value of the ORTN (indexed treasury bond) has been fixed at a parity of 106.4 cruzados for the next 12 months.

f. With the exception of personal saving accounts, no monetary correction clauses will be allowed in contracts of less than one year.

g. The Central Bank will fix the overnight interest rate at a level compatible with the new stability of prices.

h. The exchange rate has not been changed. The actual parity of CR$13.77 per dollar already takes into account past inflation.

This parity is therefore adequate to maintain the strong trade balance position of past years.

Other Distribution:
Department Heads