Balance-of-payments estimates for 1965 show that Brazilian foreign transactions presented a net surplus of about US$131 million. In relation to 1964, also a surplus year, this amount represented an increase of about US$91 million.

The current account transactions played an important role in obtaining that surplus. In 1965 exports attained a level never before reached, while imports were maintained at the lowest level ever registered in the last ten years. As a consequence, the balance of trade showed a US$590 million surplus.

Although "invisibles" presented an extraordinarily large deficit (minus US$400 million), as compared with the previous years, the surplus of US$590 million in the trade balance was sufficient to cover the deficit and still leave a disposable margin for meeting other foreign obligations.

Export estimates indicate that last year the 1964 level was surpassed to a considerable extent. The value of 1965 exports amounted to US$1,560 million. This increase was mostly due to larger exports of ores (hematite and manganese), manufactures and "other products". Export proceeds from coffee, cocoa and its derivatives and cotton, were smaller than those of the previous year by almost US$70 million.

Brazilian imports, in 1965, on the other hand, were estimated at US$970 million (f.o.b.), which represented a decrease of US$116 million, as compared with the year before. Such a reduction is attributed, particularly, to smaller imports of wheat, machinery and manufactures.

As to "services", they showed a significant increase, in 1965, in both directions. Receipts rose by US$118 million, while expenditures increased by US$192 million. The deficit on "invisibles" amounted to US$400 million, which represented an increase of US$74 million, in comparison with the 1964 deficit.

The inflow of autonomous capital during 1965 - investments and loans for the importation of equipment - totalled US$71 million. In 1964, the corresponding inflow amounted to US$121 million.
The utilization of compensatory credits, in the course of 1965, amounted to US$450 million. On the other hand, new swaps were contracted in an amount of US$105 million, while the capital inflow under the terms of Instruction No. 289, of the former Superintendency of Money and Credit - SUMOC - totalled US$174 million.

These inflows plus the surplus obtained, both in current account transactions and in the movement of autonomous capital, have permitted the country to reduce its debtor position regarding commercial arrears, swaps and short-term liabilities to foreign commercial bankers. In spite of a decrease in the gold reserves, it was possible to obtain an increase in the net exchange reserves, in an amount equivalent to US$300 million, at the end of 1965.

As to the external indebtedness, the net aggregate total in 1964, was equivalent to US$3,110 million. At the end of 1965, estimates show that this total was increased to US$3,115 million. It is of interest to register that, in the course of 1965, there took place a massive utilization of compensatory credits, the net total of which, at the end of the year, had increased by US$311 million, as compared with 1964.

In regard to indebtedness resulting from specific projects financing, there occurred, during the period, an increase of US$96 million.

A development of great significance that occurred during 1965 was the big reduction effected in "commercial arrears" and "swaps", due not only to the compensatory credits, but also to the surplus obtained in the "current transactions". The reduction of the debtor balance on these two items amounted to US$420 million, and the "commercial arrears" position was completely liquidated, in an amount of US$229 million. The decrease in the "swaps" position was of the order of US$191 million.

The balance-of-payments surplus obtained in 1965 permitted the liquidation of obligations previously assumed and brought about a significant improvement in the general exchange situation, at the close of the year.

Preliminary estimated data on the general exchange position reveal that, in spite of the rise of US$401 million in medium and long-term liabilities, attributed mainly to the compensatory credits utilization, the reduction in the short-term liabilities and the exceptional increment in the net assets with foreign bankers, contributed to an improvement in the global net exchange situation, to the extent of US$152 million, changing from US$2,717 million, at the end of 1964, to US$2,565 million, on 31 December 1965.
The results achieved by the exchange and trade policy which has been pursued since 1964, with a view to attaining an equilibrated economic development, may be considered auspicious.

Positive results have been obtained from the policies adopted by the Brazilian Government when it took office at the end of the first quarter of 1964. These include: an entire year of exchange rate stability; export growth and diversification resulting in a surplus in the balance of payments; and, without any special intervention in the exchange market, an increase in the net external reserves to a level not attained in many years.

The exchange devaluation effected in December 1964, not only represented one of the export-stimulating factors, but also accounted to a large extent for the relative reduction of imports in 1965. As a consequence, it has been possible to eliminate the chronic disequilibrium observed in the balance of payments, and also to improve the foreign financial position of the country; the latter, at the end of 1965, enjoyed a situation of complete solvency with foreign reserves above US$400 million.

Instruction No. 289, of 14 January 1965, of former SUMOC, contributed to a great extent to this situation, since its primary objective had been to bring in resources in foreign convertible currencies, as a significant contribution to a policy of restoring equilibrium in the balance of payments and at the same time of re-establishing net exchange reserves at an adequate level.

It was expected that after the external devaluation of the cruzeiro, imports would experience contraction, as in fact occurred. In order to stimulate imports, the weekly limit for exchange purchases for imports was raised and, as a result, the volume of imports at the beginning of last year had risen to the level registered in the months prior to the exchange rate increase.

On the other hand, the mechanism of Instruction No. 289, which was made operative simultaneously with the measures referred to above, not only permitted the Monetary Authorities to settle their obligations in foreign currencies arising from current transactions, swaps, interest and payments related to services of various kinds, but also placed them in a position to meet any increases in foreign exchange demand which might occur. Besides enabling the Exchange Department of the Bank of Brazil to buy foreign currencies and assuring the seller the right of repurchase, this Instruction has given Brazilian enterprises the possibility of obtaining financial resources outside the country at interest rates far below those prevailing in the internal market.

The exchange policy adopted in 1965, with a view to improving the economic and social development process of the country, established a special procedure applicable to the authorization of imports of equipment and machinery financed
by external loans for a term of less than eight years and excluded from the weekly limit the acquisition of exchange needed for imports financed with foreign loans repayable in periods of more than twenty years.

In accordance with Governmental economic policy, which has put special emphasis on the elimination of one of the main characteristics of the Brazilian economy in the last decades - the increasing deterioration of the internal value of the currency - exchange incentives were given to the firms which adhered to the price stabilization programme according to the terms of Interministerial Order No. 71. Those firms were permitted to utilize all the exchange proceeds of their own exports of manufactures.

As a part of a major plan of basic reforms in the Brazilian social and economic structure, the Central Bank of the Republic of Brazil was established by Law 4,595, of 31 December 1964 and began operations on 31 March 1965. That same Law terminated the Superintendency of Money and Credit - SUMCC - which had performed the rôle of a central bank up to that time; it also established the National Monetary Council and introduced modifications in monetary policy as well as in the monetary, financial and banking institutions.

In conformity with the Government's intention of gradually simplifying the exchange system, the Central Bank, through its Resolution No. 9 of 13 November 1965, eliminated advance deposits and the financial charge on payment for imports; at the same time, the financial charge on financial transfers was reduced from 30 per cent to 15 per cent. For firms complying with Interministerial Order No. 71, this charge was lowered to 10 per cent.

On the same date, the Bank of Brazil exchange rate was raised from Cr$1.825-1.850/US$(buying and selling rates respectively) to Cr$2.200-2.220/US$.

With these measures, which were taken simultaneously, the Government has tried to maintain a realistic value for the cruzeiro in relation to the United States dollar, taking into account the new level of internal prices and costs, which had changed since the last previous exchange readjustment effected in December 1964.

The elimination of the advance deposits and of the financial charge on import payments had the effect of lessening the impact of the exchange rate increase on internal prices, notably prices for fertilizers, equipment and raw materials essential to industry.
By means of procedures adopted for the economic and financial sectors, aiming at economic development and neutralization of the inflationary process, the Government is building up the necessary conditions for conducting its exchange policy in such a way as to permit the establishment of a single market for all transactions; as soon as possible it will eliminate the few multiple currency practices still existing.