1966 CONSULTATION WITH BRAZIL

International Monetary Fund Executive Board Decision Taken
at the Conclusion of the Fund's Consultation
With Brazil on 2 February 1966

1. The Government of Brazil has consulted the Fund under Article XIV, Section 4, of the Fund Agreement, concerning the further retention of its transitional arrangements.

2. The comprehensive program adopted by the Brazilian authorities in 1965 has produced beneficial effects on the economic and financial situation. The fiscal and balance of payments positions have improved markedly, the rate of price increases has slowed down considerably and some reduction was obtained in the rate of monetary expansion. After a temporary slow-down, economic activity appeared to have resumed its growth. The restrictive system was liberalized and a number of practices were simplified. There was also a substantial strengthening of the financial institutions. The major factors responsible for the advance made in 1965 were an effective action in regard to increases in wages and prices, fiscal restraints and the maintenance of a realistic exchange rate.

3. The Government has prepared a financial program for 1966 which aims at achieving virtual monetary stability by the end of the year through appropriate monetary measures, further fiscal improvements, other measures designed to check the rise in wages and prices, and the continuation of an adequate exchange rate policy. The Fund urges the authorities to adhere firmly to their program and to adopt such other measures as may be necessary to achieve the objectives of the program.

4. The implementation of the financial program would produce a consolidation of the improvement obtained in 1965 in the balance of payments. The policies of promotion and diversification of exports initiated in 1965 represent considerable progress and the Fund notes the intention of the authorities to continue with them as a means to improve the country's capacity to import. It urges Brazil to consolidate its foreign exchange reserve position and to improve the term structure of its foreign debt.
5. The Fund welcomes the simplification of the Brazilian exchange rate system and the reduction of restrictions and discrimination in foreign payments. Some of the remaining exchange practices are still complex and the Fund urges Brazil to take steps toward their simplification. The Fund also considers that the Brazilian economy would benefit considerably from the implementation of the announced policy to reduce trade restrictions. In the meantime, the Fund does not object to the maintenance on a temporary basis of Brazil's multiple currency practices and restrictions on payments for current international transactions as described in SM/66/11, Part II.

6. In concluding the 1965 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Brazil.