STATEMENT BY THE REPRESENTATIVE OF THE INTERNATIONAL MONETARY FUND
AT THE BALANCE-OF-PAYMENTS CONSULTATION WITH BRAZIL
3 JULY 1969

The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of April 25, 1969 taken at the conclusion of its most recent Article XIV consultation with Brazil and particularly to paragraphs 2 to 5 which read as follows:

"2. In 1968 there was a strong rise in economic activity and an improvement in the net foreign reserve position of the monetary authorities, but there was no further progress in reducing the rate of inflation. While the fiscal deficit was held to about the amount that had been planned, bank credit rose much faster than had been envisaged in the financial program, including operations financed from a sharp increase in the commercial banks' short-term foreign indebtedness. The trend toward a deceleration of the rate of increase of money wages that has been evident since 1964 was interrupted in the second half of 1968, as workers were compensated for reductions in real wages that had emerged in previous years as an unintended effect of the application of the official wage formula.

"3. The Government's financial program for 1969 aims at a sharp reduction in the rate of price increase—to about 15 per cent—concomitant with a satisfactory rate of growth and sound balance of payments position. To achieve these objectives the program calls for a major cutback in the rate of expansion of bank credit, based in part on important measures adopted to reduce the fiscal deficit but also entailing a much tighter policy on credit to the private sector. In addition, the continued application of the wage formula is expected to result in a resumption of the declining rate of money wage increases, and the flexible exchange rate policy is to be maintained.

"4. The Fund believes that the fiscal plan which has been adopted for 1969 as a whole is suitable for the achievement of this year's stabilization goal, and it will be essential to adopt whatever additional measures may be needed to ensure that the fiscal deficit does not exceed the targeted amount. Implementation of the credit policy that has been established for 1969 will require an abrupt change from the recent trend, and the Fund notes the critical importance of improving the monetary authorities' control over credit, including the official banks' operations with the private sector. In this
connection, the Fund would also advise careful surveillance over commercial bank use of short-term foreign credits with a view to avoiding undesired swings in bank credit or balance of payments difficulties.

5. The Fund notes with satisfaction the progress Brazil has made in recent years in reducing its reliance on bilateral payments agreements, and it hopes that further steps will be taken in this direction. The Fund welcomes the intention of the authorities to avoid introducing new restrictions or multiple currency practices, and to pursue a flexible exchange rate policy consistent with the maintenance of a satisfactory balance of payments position. It would be desirable to use the flexible exchange rate policy as a basis for new initiatives to liberalize further the trade and payments system. 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/69/48, Part II."

On April 25, 1969 the Fund approved a stand-by arrangement authorizing Brazil to draw up to the equivalent of $50 million for a period of 12 months beginning April 29, 1969. This stand-by is in support of policies directed toward a high growth rate, a slowdown in the rate of price increases and achievement of a satisfactory balance of payments.

In 1968, official net foreign reserves rose by $117 million compared with a decline of $112 million in 1967, but the net foreign reserves of the monetary authorities and the commercial banks (taken together) declined, reflecting the drawings made by the commercial banks on short-term credits.

At the present time the general level of restrictions of Brazil which are under reference does not go beyond the extent necessary to stop a serious decline in its monetary reserves.