

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments
Restrictions

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1971 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH BRAZIL

Basic Document for the Consultation

1. In connexion with the consultation under the provisions of paragraph 12(b) of Article XVIII to be held in June 1971, the Government of Brazil has transmitted (a) a note on measures taken in trade liberalization, and (b) a statement on the balance-of-payments position of Brazil. These are reproduced on the following pages.¹
2. It will be noted that the outline of measures taken refers to no action in the past two years. On the assumption that the situation remains essentially as it was at the time of the last consultation, members of the Committee may wish to refer to the documents pertaining to that consultation, notably BOP/92 and BOP/92/Rev.1. Other relevant information may be found in the background material supplied by the International Monetary Fund, a copy of which has to be forwarded to each member of the Committee.

(A) MEASURES TAKEN IN THE FIELD OF TRADE LIBERALIZATION

In the context of the trade and financial policies followed since 1964, measures were taken to assure increasing trade liberalization. The main restrictions on imports for balance-of-payments reasons, as foreseen in Article 48 of Law No. 3.244, in force since 14 August 1957, were suspended (Central Bank Resolution No. 41, dated 22 November 1966). Accordingly, as of 1 March 1967, imports of goods classified in the "Special Category" follow the same procedures which apply to imports under the "General Category". The exchange cover certificate, formerly required for the imports under the "General Category" was abolished and replaced by an "Import Voucher" (Guia de Importação) containing for consular and customs purposes the relevant specifications of the goods to be imported. This "Import Voucher", issued by the Bank of Brazil, is valid for shipment of the imported goods, within a period of 120 days. The importer, if he so wishes, may close the exchange coverage contract with any one of the authorized banks, prior to the actual issue of the "Import Voucher" (Resolution No. 35, dated 18 September 1966, of the Central Bank).

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Certain statistical material accompanying the statement on the balance-of-payments position will be circulated separately.

(B) BALANCE OF PAYMENTS, 1969/1970

During the past three years, Brazil's balance of payments maintained a steady trend: foreign transactions showed surpluses of US\$32 million, US\$549 million and US\$545 million, respectively. These figures reflect a substantially favourable performance of capital movements. Net inflow of investment capital and loans exceeded the structurally negative current account balance - current transactions deficits were US\$508 million in 1968, US\$281 million in 1969 and US\$622 million in 1970 - and made possible the achievement of such results.

A. Foreign trade

Expressed in dollars f.o.b., Brazil's overall foreign trade (exports plus imports), which averaged US\$3 billion in 1964/68, increased to US\$4.3 billion in 1969 and US\$5.3 billion in 1970.

Total value of trade rose by 16 per cent in 1969 and 23 per cent in 1970, which represents growth rates above the levels reached by gross national product indicators and clearly demonstrates the efficiency of the well co-ordinated and realistic exchange and foreign trade policies.

Exports

Brazilian exports showed strong and continuing progress over the last two years.

In 1969 exports totalled US\$2,311 million, which was 23 per cent above the 1968 level (US\$1,881 million) and the US\$2,739 million reached in 1970 represent a 17.1 per cent rise over the preceding year. Compared with the 1964/1968 period when exports averaged US\$1.7 billion, this meant a 58.8 per cent increase.

However, total exports for the last three years did not represent absolute cumulative gains for the Brazilian economy, but only a partial recovery toward a position which would long since have been achieved if the price levels registered for major export products in the early 1950's had been maintained.

As for the composition of traditional export commodities, primary products such as coffee, cocoa, cotton, mineral ores and timber, still represent the bulk of Brazilian exports, owing to the structure of the economy. The country has been trying to diversify the composition of its exports by including new products or by conquering new markets for traditional commodities, in order to face the undeniable reality that world trade for most primary commodities has presented only modest increases linked to world population growth. The trend of Brazilian exports in the last three years shows the correctness of the new policy: major export products presented considerable growth and new commodity exports, especially manufactures, either grew or maintained their position. It is important to note that exports of manufactures, which totalled US\$175 million in 1964, rose to US\$404.5 million in 1968, to US\$499.8 million in 1969 and to US\$643.7 million in 1970. This last figure represents a 300 per cent rise above the 1964 level.

Imports

Since the Brazilian economy is highly dependent on imports of raw materials and capital goods, import level is closely related to economic performance.

Gross national product rose by 8.4 per cent, 9 per cent and 9.5 per cent in 1968, 1969 and 1970, respectively, and Brazilian imports experienced increases of 28 per cent, 7.5 per cent and 27 per cent during the same years. Compared with the 1964/68 average, the value of imports for 1970 represents a 94.3 per cent rise. These increases can be accounted for not solely by items closely related to the development process, but also by consumer goods, which is a good indication of the liberal exchange and trade measures adopted by the authorities.

B. Exchange system

The flexible exchange rate system adopted since August 1968, together with the elimination of speculative pressures which arose as fixed rates became unrealistic, assured adequate remuneration to exporters and gave a great stimulus to export activities.

Since the establishment of the new exchange system in August 1968 (up to 31 December 1970) the exchange rate has undergone twenty readjustments. According to end of year rates, re-adjustments reached 13.6 per cent in 1969 and 13.8 per cent in 1970.

The positive impact registered in major balance-of-payments items clearly indicates the advantages of maintaining a more realistic exchange rate, not only in the promotion of exports, but also as a powerful tool in the regulation of import expenditures and in the maintenance of an adequate flow of foreign capital.

C. Capital movements

The acceleration of the country's economic development, the curtailment of inflation and a perfectly stable political situation are the three main factors of attraction to official and private foreign financing and investment, which have registered high levels during these more recent years.

Gross capital inflows totalled US\$771 million in 1968, and rose to US\$1,291 million in 1969. Both figures have been largely surpassed by that of 1970, US\$1,748 million.

Capital outflows, due especially to repayments, totalled US\$622 million in 1969, and US\$783 million in 1970.

The net effect of capital movements on total Brazilian external debt was a US\$892 million increase according to Central Bank figures for the registration of debt.

It is important to note that external debt is now under strict control and that eventual pressures affecting the balance of payments are minimized owing to the redistribution of loan maturities over a longer period ahead. This fact, together with a possible rotation of debts and the country's foreign credit standing, ensure that Brazil will be able to meet its obligations without strain.

As mentioned above, capital inflows were the major factor responsible for balance-of-payments surpluses in the last three years.

D. Exchange situation

A perfect interaction between exchange, foreign trade and external debt policies, harmonized with domestic measures to keep inflation under control and to promote economic development, has made possible the adjustment of foreign trade to values more in line with a growing economy, as well as the restoration of foreign credit standing and the improvement of the country's exchange position.

Brazilian gross exchange reserves (international liquidity definition) increased from the equivalent of US\$199 million in 1967, to US\$257 million in 1968, US\$657 million in 1969 and US\$1,187 million in 1970.

At the same time, overall exchange position - which includes assets and liabilities of any nature and term - rose from the negative balances of US\$356 and US\$239 million, in 1967 and 1968, respectively, to favourable balances of US\$481 million in 1969 and US\$1,091 million in 1970. Therefore, improvements in 1969 and 1970 amounted to US\$720 million and US\$610 million.

ANNEXRESOLUTION NO. 35

Pursuant to the decision of the National Monetary Council taken at the meeting held today (18 September), and in accordance with the provisions of Item V of Article 4 and Article 9 of Law No. 4595 of 31 December 1964, the Central Bank of the Republic of Brazil hereby

Resolves:

I - Prior closing of exchange called for in Item II of Instruction No. 294, dated 31 March 1961, issued by the former Superintendency of Currency and Credit, shall no longer be required for imports of goods classified in the general category. Consequently the Exchange Cover Certificate (CCC), referred to under the sole paragraph of Article 53 of Decree No. 42820 of 16 December 1957 is hereby abolished.

II - Consular visas and customs clearances will now depend upon an Import Voucher ("Guia de Importação"), to be issued by the Foreign Trade Bureau of the Banco do Brasil, exhibiting the information of and similar to the aforesaid Exchange Cover Certificate.

III - The Import Voucher shall be valid for a maximum length of 120 days for the shipment of the respective goods abroad.

IV - Regardless of the contents of the foregoing item, customs clearance of imported goods shall call for evidence of the closing of respective exchange contract with one of the authorized banks.

V - None of the provisions herein shall prevent an importer from closing an exchange contract before the Import Voucher be issued, if this be to his advantage.

VI - Until the new Import Voucher be issued, the abolished Exchange Cover Certificate, plus any necessary remarks made thereon, shall be used.

Rio de Janeiro, 18 September 1966

RESOLUTION NO. 41

The Central Bank of Brazil, in accordance with a decision of the National Monetary Council at its meeting of 19 November 1966 and in accordance with the provisions of Article 1 of Decree Law No. 63, of 21 November 1966 and in the Articles 3 - Item III - and 9 of Law 4595, of 31 December 1964, resolves:

The imports of goods classified in the "special category", established by the Article 48 of Law 3244, of 14 August 1957, from 1 March 1967 and on will be processed according the precepts which rule the imports of products classified in the "general category".

Rio de Janeiro, 22 November 1966

RESOLUTION NO. 120

The CENTRAL BANK OF BRAZIL, pursuant the decision of the National Monetary Council from 7 July 1969 and in accordance with the provisions of Article 4, Items V and XXXI and Article 9 of the Law No. 4595 of 31 December 1964, resolves:

- I - Exchange transactions contracted "spot" must be settled two days after the date of the contract.
- II - Transactions for liquidation at a longer term will be contracted "forward" for delivery in a specific date or in a period of time agreed by the participants of the operation.
- III - The previous item does not include operations other than exports and imports of goods, for which the contracts must be only "spot".

Rio de Janeiro, 25 July 1969

RESOLUTION NO. 121

The CENTRAL BANK OF BRAZIL, in accordance with the decision of the National Monetary Council of 14 August 1969, based on provisions of Articles 4 - Items V and XXXI - and 9 of the Law 4595 of 31 December 1964, resolves:

- I - The need for closing exchange contract prior to the issue of the import permit (guia de importação) will be restricted only in the case of imports of products on the schedule attached to Decree Law No. 398, and for cars, utility trucks and station wagons.
- II - This rule revokes Resolution No. 94 from 7 July 1968.

Rio de Janeiro, 18 August 1969

RESOLUTION NO. 125

The CENTRAL BANK OF BRAZIL, pursuant the decision of the National Monetary Council taken in 11 September 1969, based on provisions of Articles 4 - Items V and XXXI - and 9 of the Law 4595 of 31 December 1964, resolves:

- I - Contracting of exchange entering the country in the form of loans as foreseen in Law 4 131/62, altered by Law 4 390/64, and regulated by Decree No. 55 762/65, will require prior approval of the Central Bank as in the case of operations under Instruction 289 and Resolutions 63 and 64.
- II - The Central Bank will issue the regulation of the foregoing.
- III - This Resolution comes into force on 15 September.

Rio de Janeiro, 12 September 1969

RESOLUTION NO. 133

The CENTRAL BANK OF BRAZIL in accordance with the decision of the National Monetary Council taken at 27 January 1970, and based on provisions of Articles 4 - Items V and VIII - and 9 of Law No. 4 595/1964, resolves:

- I - To extend to private banks the permission for buying the exchange deriving from foreign loans under the provisions of Instruction 289, altered by Resolution 83 from 3 January 1968.
- II - The issuing of the loan certificate will be transferred to Central Bank.
- III - Other prior provisions of these operations (Instruction 289) will continue on effect.

Rio de Janeiro, 30 January 1970

RESOLUTION NO. 152

The CENTRAL BANK OF BRAZIL in accordance with the decision of the National Monetary Council taken at 26 August 1970, and based on provisions of Articles 4 - Items V and VIII - and 9 of Law 4 595/1964, resolves:

- I - Operations of foreign finance for Brazilian imports with maturity above one year, must be approved by Central Bank previously to the register, as established by Law 4 131/1962 altered by Law 4 390/1964, both regulated by Decree 55 672/1965.
- II - The Central Bank will issue complementary instructions for financing operations that could be excluded of the prior item.

Rio de Janeiro, 27 August 1970

RESOLUTION NO. 154

The CENTRAL BANK OF BRAZIL, in accordance with the decision of the National Monetary Council taken at 26 August 1970, and based on provisions of Articles 4 - Items V and VIII - and 9 of the Law 4 595/1964, resolves:

- I - To reduce the percentage of foreign exchange proceeds of coffee exports which must be sold to the Central Bank by negotiating banks from 70 per cent to 40 per cent of the total.
- II - Item I of Resolution No. 68 is, in consequence, revoked.

Rio de Janeiro, 27 August 1971