

AIRGRAM

FN 6 Bray

ARA-10

RM/R	REP	AF
1	1	
ARA	EUR	FE
NEA	CU	INR
		5
E	P	IO
L	FBO	AID
		9
AGR	COM	FRB
10	10	3
INT	LAB	TAR
TR	XMB	AIR
4	4	
ARMY	CIA	NAVY
	20	
OSD	USIA	NSA
29		3

TO : Department of State

INFO : Brasilia, Belém, Recife, Salvador, Belo Horizonte, São Paulo, Curitiba, Porto Alegre

FROM : Amembassy RIO DE JANEIRO

SUBJECT : Manual Market Regulation: Central Bank Resolution 62

REF : CERP Section D; Embtel 1214

LIMITED OFFICIAL USE

DEPARTMENT OF STATE
BUREAU OF
INTER-AMERICAN AFFAIRS

RECEIVED
DEPARTMENT OF STATE
SEP 7 1967

SEP 5 8 45 AM 1967
ANALYSIS BRANCH

SEP 02 1967

DATE: August 31, 1967

1. A new measure directed at limiting the outflow of foreign exchange through the manual market ^{1/} was taken by the National Monetary Council on August 17, 1967. This new measure, implemented as Resolution 62 of the Central Bank, prohibits residents of Brazil from buying foreign specie or travelers checks except for purposes of international travel and then only upon presentation of a certificate from the Finance Department that Brazilian income taxes have been paid. For foreigners visiting Brazil Resolution 62 permits purchases of foreign specie ^{freely} up to 30 percent of the amount of the documented sales during the visit to Brazil. In addition, upon specific approval of the Central Bank, exchange may be purchased for the full amount of the original sales. A free translation of Resolution 62 is attached.

2. Prior to the issuance of Resolution 62 manual market exchange was, in fact, available at the official exchange rate for any purpose, including financial remittances and exchange speculation despite the fact that use of the manual market for these purposes involved infractions of tariff and income tax legislation and exchange regulations. To maintain the manual rate at the official rate the Central Bank provided from January to August 1967 net support to the manual market of \$130 million, an average of about \$17 million per month. Net Central Bank support during 1966 totalled \$265 million or \$22 million per month.

1/ The manual market is the market for purchase and sale of foreign specie, primarily US dollar greenbacks and travelers checks.

Attach.: Free Translation of Resolution 62 of the Central Bank.

LIMITED OFFICIAL USE

FOR DEPT. USE ONLY

FORM 4-62 DS-323

In Out

Drafted by: FINATT: DESyvruD/tw

Contents and Classification Approved by: DESyvruD - FINATT

Clearances: RBB/wood/ECON
Minister S. Van Dyke

DECLASSIFIED
Authority *NN969000*

1967 SEP 2 5 PM 4 38
1967 SEP 5

COPYFLO-PBR
COPYFLO-PBR

3. Studies of the manual market and alternative solutions to resolving this large outflow problem, were underway for several months. An initial measure to stem the outflow was taken by the National Monetary Council on June 1, 1967, with the issuance of Central Bank Circular 90. (Reported in A-1109, of June 12, 1967.) Circular 90 required that all financial institutions operating in the manual market obtain identification of purchasers of foreign specie and travelers checks and to report daily such identities and amounts to the Central Bank. It was also hoped that identification of the purchasers would provide a better idea of the purposes for which the exchange was used.
4. During two and a half month's experience with Circular 90 the monetary authorities learned only that mere identification of purchasers of exchange was neither adequate to stem the outflow nor to clarify the uses of this exchange. The manual market outflow continued at \$22 million in June, \$17 million in July and \$13 million to August 17. Use of false identification papers was apparently widespread. Thus on August 17, the decision was taken to limit sales of exchange in the manual market to those persons having a certificate from the Finance Department, previously required of all persons traveling abroad, that income taxes have been paid.
5. The mechanism for limiting manual exchange availability chosen by the Council is the income tax certificate required for departure from Brazil. Now the traveler must present his certificate at the time of exchange purchase. These certificates will bear a notation as to the maximum exchange purchase consistent with income reported on tax returns. The exchange house is responsible for noting amounts purchased on the reverse of the certificate and forwarding it to the Finance Ministry.
6. As was foreseen, Resolution 62 induced development of a black market for foreign specie at rates which reportedly fluctuated between NCr\$2.90 and NCr\$3.20 per U.S. dollar. But Resolution 62 also produced some favorable results, although their duration is an unknown factor. Firstly, its main objective of curtailing exchange loss was achieved with net support during the succeeding ten days totalling less than \$1 million. Secondly, the demand for Brazilian Government bonds with an option for exchange correction, has increased, indicating that some of those who formerly bought foreign exchange have shifted to government bonds.

Comment

7. While the Brazilian press suggested that Resolution 62 presaged a change in the official exchange rate, it appears to have been taken solely to stem the unacceptable outflow through the manual market. This restriction of the manual market constitutes a departure from the policy of gradual movement toward a unified exchange rate determined by market forces which the GOB has followed since April 1964. It is too early to judge whether the reduction of reserve losses and improvement in tax compliance will be sufficient to justify this departure.

TUTHILL
✓

LIMITED OFFICIAL USE

DECLASSIFIED

Authority NND 968,000

CENTRAL BANK RESOLUTION No. 62
(free translation)

The Central Bank of Brazil, by decision of the National Monetary Council, taken at the session of August 17, 1967, and in accord with the dispositions of Article 4, incise V, and Article 9 of Law No. 4595 of December 31, 1964,
Resolves:

- I. Sales of foreign exchange, in specie or in travelers checks, will only be permitted to attend to the necessities of the personal expenditures of travelers.
- II. Except in the instances foreseen in item VII, sales of currency and travelers checks will only be permitted to physical persons resident in the country through presentation of a Negative Certificate (certidão negativa) of Income Tax, an obligatory document for traveling abroad.
- III. In the course of the sale, the operating establishment will fill out the respective record (bolêto) of the exchange transactions which will be signed by the client and will collect the referenced Negative Certificate of Income Taxes.
- IV. Together with the recorded registrations of these operations, daily sent to the Central Bank office in the area in which located, the establishments will henceforth forward the respective Negative Certificates collected with an anotation on the reverse side, dated and signed by the authorized person of the establishment, of the value of the foreign currency sold to the client.
- V. The recorded registrations referred to in the previous item will contain the name of the client, followed by the value of the operation in foreign exchange, and the number of the corresponding exchange record.
- VI. The exchange record, referred to in item III, should be preserved in numerical order by the operating establishment.
- VII. Residents of foreign countries, which are temporarily in the country, will be permitted to acquire foreign exchange, in specie, to the value of authenticated sales which were effected during the period of their stay within the national boundaries, observing the determination in item VIII. To this end, the purchasing establishments are required to provide to the foreign residents an exchange record authenticating the realized operation.
- VIII. The repurchase indicated in the previous item which surpasses 30 percent of the amount sold will require an authorization of this Bank.

- IX. For the authentication of the substance of item VIII the client shall, in effecting the operation, provide the authenticated exchange record, or the exchange contract, as is the case, regarding the sale which has been made at the authorized establishment.
- X. The operating establishment which collects the purchase exchange record referred to in the previous item is required to preserve it together with the record, signed by the client, of the effected sale.
- XI. The record of the exchange sale will contain the following specifications: name of the selling establishment; number of the transaction; name and address of the buyer; equivalence in national currency; number of the Identity Card or Passport of the buyer, whichever is the case.
- XII. The record of the exchange purchase will contain the following specifications: name of the buying establishment; number of the transaction; name of the seller; value of the purchase in foreign currency; rate of exchange of the transaction; equivalence in national currency.

Rio de Janeiro, August 1967.

Central Bank of Brazil

sgd. Rui Leme
President

EBD/67/129

August 24, 1967

To: Members of the Executive Board

From: The Secretary

Subject: Brazil - Changes in Exchange System

In a communication of August 18, 1967 (Attachment), the President of the Central Bank of Brazil has informed the Fund of certain changes in the Brazilian exchange system.

The staff will describe and comment upon these changes in a paper that will be issued at an early date reviewing policies and developments in Brazil.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

DECLASSIFIED

Authority NN969000

TRANSLATION

INTERFUND

AUGUST 18, 1967

I INFORM YOU THAT CENTRAL BANK IN ACCORDANCE DECISION NATIONAL MONETARY COUNCIL MEETING SEVENTEEN AUGUST HANDED DOWN RESOLUTION NO. 62:

- I. SALES FOREIGN EXCHANGE IN FORM CURRENCY OR TRAVELERS CHECKS SHALL ONLY BE PERMITTED TO MEET PERSONAL NEEDS TRAVELERS.
- II. APART FROM CASES PROVIDED FOR IN ITEM VII, SALES OF CURRENCY AND TRAVELERS CHECKS WILL ONLY BE PERMITTED FOR NATURAL PERSONS RESIDENT IN BRAZIL ON SUBMISSION ONE COPY INCOME TAX COMPLIANCE CERTIFICATE, A DOCUMENT OBLIGATORY FOR TRAVEL ABROAD.
- III. AT THE TIME OF MAKING THE SALE, THE OPERATING ESTABLISHMENT SHALL MAKE OUT AN EXCHANGE TRANSACTION VOUCHER THAT MUST BE SIGNED BY THE CLIENT, AND COLLECT THE ABOVEMENTIONED INCOME TAX COMPLIANCE CERTIFICATE.
- IV. TOGETHER WITH SHEETS OF REGISTER OF THESE OPERATIONS, DELIVERED DAILY TO BRANCH CENTRAL BANK OF TOWN WHERE SITUATED, THE ESTABLISHMENTS SHALL SEND THE RELEVANT COPIES OF THE TAX COMPLIANCE CERTIFICATES COLLECTED, WITH ANNOTATION, ON THE BACK, DATED AND SIGNED BY AN AUTHORIZED PERSON OF THAT ESTABLISHMENT, SHOWING THE AMOUNT IN FOREIGN CURRENCY SOLD TO THE CLIENT.
- V. THE REGISTER SHEETS REFERRED TO IN THE PREVIOUS ITEM SHALL SHOW THE NAME OF THE CLIENT, FOLLOWED BY THE AMOUNT OF THE TRANSACTION IN FOREIGN EXCHANGE, AND THE NUMBER OF THE CORRESPONDING VOUCHER.
- VI. THE VOUCHERS REFERRED TO IN ITEM III SHALL BE FILED IN NUMERICAL ORDER BY THE OPERATING ESTABLISHMENT.
- VII. NONRESIDENTS TEMPORARILY IN THE COUNTRY WILL BE AUTHORIZED TO ACQUIRE FOREIGN CURRENCY IN CASH, UP TO THE AMOUNT OF THE SALES THAT THEY CAN PROVE THEY HAVE MADE DURING THEIR STAY IN BRAZIL, PROVIDING THAT THE REQUIREMENTS OF ITEM VIII ARE MET. FOR THIS PURPOSE PURCHASING ESTABLISHMENTS MUST SUPPLY TO NONRESIDENTS A VOUCHER ATTESTING THAT THEY HAVE CARRIED OUT THE OPERATION.
- VIII. ANY REPURCHASE OF THE SORT REFERRED TO IN THE PRECEDING ITEM EXCEEDING THIRTY PER CENT (30 PER CENT) OF THE AMOUNT SOLD SHALL REQUIRE PRIOR AUTHORIZATION BY THIS BANK.
- IX. FOR THE PROOF MENTIONED IN ITEM VIII [sic], THE CLIENT SHALL, AT THE TIME OF THE TRANSACTION, SURRENDER THE CERTIFIED VOUCHER OR EXCHANGE CONTRACT AS THE CASE MAY BE, PERTAINING TO THE SALE MADE TO THE AUTHORIZED ESTABLISHMENT.

DECLASSIFIED

Authority NN969000

TRANSMISSION

X. THE OPERATING ESTABLISHMENT COLLECTING THE PURCHASE VOUCHER REFERRED TO IN THE PREVIOUS ITEM MUST FILE IT WITH THE SALES VOUCHER.

XI. THE SALE VOUCHER MUST SHOW THE FOLLOWING INFORMATION: NAME OF SELLING HOUSE; SERIAL NUMBER; NAME AND ADDRESS OF PURCHASER; AMOUNT OF SALE IN FOREIGN CURRENCY; NUMBER OF IDENTITY CARD OR PASSPORT OF THE PURCHASER, AS APPROPRIATE.

XII. THE PURCHASE VOUCHER MUST SHOW THE FOLLOWING INFORMATION: NAME OF PURCHASING HOUSE; SERIAL NUMBER; NAME OF SELLER; AMOUNT OF PURCHASE IN FOREIGN CURRENCY; RATE OF EXCHANGE OF THE TRANSACTION; EQUIVALENT IN BRAZILIAN CURRENCY.

A COPY OF THE SAID RESOLUTION FOLLOWS BY AIR MAIL. REGARDS.

RUY AGUIAR SILVA LEME
PRESIDENT BANCENTRAL

DECLASSIFIED

Authority NND 969 000