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A-192 UNCLASSIFIED

Department of State

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Amembassy RIO DE JANEIRO March 21, 1969

Exchange Regulations-Imports

A. A-467, Jan. 11, 1968; B. Rio 8428; C. Rio 10041, July 18, 1968
D. A-85; E. A-175

Summary

1. On March 12, 1969 the Central Bank issued GECAM Communications No. 99 and 100, which modify and define more precisely the use of foreign exporter credit facilities as provided for in Resolutions 82 and 91 (Ref. A and B). These new directives are consistent with other recent measures regulating Brazilian importers' use of foreign credit and otherwise affecting Brazilian imports in that they have two basic objectives: 1) to discourage imports by, in this case, potentially limiting the availability of credit; 2) to require registration of proposed short-term financial transactions in order that the Central Bank might better monitor and control the level and structure of the nation's short-term foreign debt. It is expected that these measures will serve the latter objective but they will not significantly affect import financing nor dampen the growth in imports.

GECAM Communication No. 99

2. This measure prohibits, except in special cases determined by CACEX, Brazilian importers from paying interest charges on foreign exporter credits of 180 days or less, and states that for credit of greater than 180 days but less than 360 days they may pay interest on only the period in excess of 180 days. These regulations are not expected to seriously diminish the Brazilian importers' ability to obtain exporter credit because several importers have reported that import financing of less than 180 days does not normally involve interest payments. Also

Received April 5, 1969 CJL

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PBecker-E/COMM (in draft); RJBloomfield-ECON an official of CACEX pointed out the relative ease with which an importer, if necessary, could arrange with the exporter to include interest charges in the sales price of the imported good. The Communication also requires for the first time that CACEX be informed of the terms for credits of less than 360 days and says, in effect, that the monetary authorities shall not approve a transaction that entails the payment of interest that exceeds prevailing interest charges in the country in whose currency the transaction is being effected. While this could result in an increase in price, widespread implementation of this mechanism on the 180-360 day credit is not anticipated. In any case, the intentions of the monetary authorities are clear: prevent discrimination in the form of higher interest charges ~~against~~ for poorer risks Brasilian importers; and alledged excessive remittances by foreign subsidiaries paying artificially inflated interest on financing provided by the parent company; and contain the nation's short-term debt. Compulsory registration of suppliers' credits and long-term transactions already enabled the Central Bank to monitor and administratively influence the structure of debt with maturities of greater than a year. Although this mechanism has not been used as a policy tool, the prerogative and the opportunity to delay approvals do exist. 1/

GECAM Communication No. 100

3. This measure supplements Resolution 91 which required that transactions under Resolution 82 involving credit with maturity of more than 360 days be registered with the Central Bank. In order that all such debt be known and recorded at the Central Bank, Communication 100 requires importers to also register those exporter credits of over 360 days that were arranged during the period between issuance of Resolution 82 in January 1968 and of Resolution 91 in May 1968. Thus it is consistent with the provisions in Communication 99 which aim primarily at improving the monetary authorities' data on short-term debt.

Comment

4. The Central Bank's desire to improve its information on exporters' credits reflects its sound awareness of the importance of maintaining a close watch on short-term debt. The above measures will help the monetary authorities in formulating its exchange policies and, for instance, in anticipating and preparing for periodic heavy demands for exchange. Communication 99 will also help to eliminate the abuse of interest payments on short-term financing as a means of remitting profits (this is clearly one of the main reasons for the measure). While neither

1/ In a recent discussion with an Embassy officer an importer claimed that the Central Bank would not approve his proposed supplier credit because it carried an interest charge in excess of 7 percent. This administratively determined upper limit was later revised upward to 8 percent.

Communication 99 nor 100 is specifically aimed at nor is expected to discourage imports, the former at least reflects this inclination. By placing conditions on the use of foreign credit without introducing exchange restrictions it follows logically other recent measures which in fact have been aimed explicitly at holding down imports. Resolution 94 of August 1968 precluded the use of foreign exporter credit under Resolution 82 to import goods liable to tariffs of 50 percent or more (Ref. C). This denial of credit facilities for luxury goods imports was followed in late December 1968 by Decree Law 398 which increased by an additional 100 percent the tariff on special category goods (Ref.D). Finally Decree Law 406, also issued at the end of 1968, provided for the application of the ICM tax on imports when they enter the establishment of the importer, even if the importer is the end-user and the import is not sold or transferred within Brasil (Ref. E). This measure eliminated the advantage which imports had over similar domestically produced goods by in effect raising the price of the import to the consumer/user. The monetary authorities of course are acutely aware of the 29 percent increase in imports in 1968 and the consequent deterioration of Brasil's trade surplus. Thus the discouragement of imports is not unintentional. However, it is being effected without resort to outright discriminatory controls or restrictions and in the hope of slowing down the growth of imports without reversing the policy of trade liberalization nor denying the nation the imports which are essential to maintenance of a high level of economic growth.

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