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AMERICAN EMBASSY
BRASILIA, BRAZIL

TO: Department of State

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

FROM: AmEmbassy RIO DE JANEIRO June 15, 1966

SUBJECT: Accounts of the Brazilian Monetary Authorities, April 1966

REF: 1/ CERP B-2501; Embassy's A-1184 of May 20, 1966; Embtel 2760

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ACTION TAKEN

1. Net domestic assets encompassed within the IMF ceiling expanded by Cr$32 billion during April, bringing the balance at the end of the month to Cr$3,131 billion, or Cr$131 billion above the end-of-June target.

2. The April expansion was measured by taking the change in the adjusted totals for the end of March and April. The adjusted total for March is Cr$3,098.7 billion; this involves an upward adjustment of Cr$92.0 billion, as compared to the data in our A-1184. To adjust the earlier data it is necessary only to reduce the balance of the coffee defense fund by Cr$92.0 billion, and increase the figure for "other exchange operations", outside the Fund ceiling, by the same amount.

3. The revised end of April figure involves an upward adjustment of Cr$75.6 billion in the figure reported by reftel. In this instance, the change is composed of an increase in net financing of the Treasury of Cr$24.4 billion, an increase in miscellaneous assets of Cr$69.9 billion, and the addition of an offset of Cr$18.7 billion, representing the difference between the amount of Resolution 21 bonds sold and the receipts from these sales which have actually been made available to finance companies.

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1/ Deptel 1985 was received after this airgram was in preparation. Information therein proved most helpful.

Enclosure: Operations Monetary Authorities

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RCW
FINATT/RCWilliams 6-15-66 Donald E. Syvrud

Robert B. Elwood

4. While the Central Bank is not going to revise its end-of-March and -April totals, the reporting officer was told that necessary accounting changes were made on May 9, so that end-of-May data will be correct.

5. April results benefitted from a sharp increment in the offset from AID counterpart, due to the disbursement of the first tranche of the 1966 program loan during the month. At the same time, we believe that there were applications from the AID funds during the month which were not netted out at the end of April, but were carried as assets in the miscellaneous account. Coffee operations were contractionary by Cr$42 billion during the month, about one-half of which resulted from a decline in crop financing.

6. There was a notable expansion in the gross credit operations of the Monetary Authorities (Cr$165 billion) during April. Non-coffee rediscounts and private sector credit increased by Cr$159 billion, somewhat more than twice the expansion projected for these operations during the second-quarter in the monetary budget. Miscellaneous assets also expanded sharply, in part reflecting the fact that applications of counterpart were registered in this account during April as mentioned above.

7. Preliminary data on commercial bank operations during April are not yet available. We doubt, however, that banks increased their credit operations by much during April, although evidence from samples of banks around the country indicate that credit operations were stepped up considerably in May. At the same time, however, banks appeared to be utilizing part of additional resources in May to restore their liquidity positions, which were historically very low at the end of March and April.

8. It should be noted, that while the total of currency in circulation shown in the attached table is correct, the distribution as between banks and the public was estimated by adding to March actuals for banks and the public a percentage of the total increase based on a historical distribution. It may be that almost all of the increase in currency in circulation was held outside the banking system. It may well be, therefore, that all of the increase in primary money in April took the form of increased liabilities of Monetary Authorities to the public. Under these circumstances -- an increased demand for currency and an increase in the proportion of deposit business by the Bank of Brazil -- commercial banks would not gain additional reserves to support additional credit expansion (with attendant increase in deposits and required compulsory reserve). In short, almost all of the increase in the money supply in April may be attributable to increases in currency and deposits in the Bank of Brazil, with commercial bank deposits fairly steady or possibly declining.

RAINE

Operations of the Monetary Authorities, April 1966
(Cr$ billions)

	April 1966	
	End of Period	Change in Period
I. Net Domestic Assets Under IMF Ceiling	3,130.7	+32.0
A. Assets	4,472.3	+164.4
1. Treasury (net)	1,852.2	-50.2
-cumulative cash deficit	(2,546.5)	(+65.3)
-receipts in transit	(-161.3)	(-87.8)
-other financing	(-533.0)	(-27.7)
2. Minimum Price Agency	215.2	-25.0
3. Other Official Entities	117.7	-13.4
4. State/Local Gvts.	15.5	-
5. Banks (excluding coffee)	156.7	+32.7
6. Private Sector (excluding coffee)	1,540.6	+126.0
-CREGE (commercial)	(825.5)	(+84.0)
-CREAI (industrial, ag.)	(715.1)	(+42.0)
7. Miscellaneous (net)	574.4	+95.3
-export/import (CACEX)	226.4	(-13.8)
-domestic commodities	(30.6)	(-0.5)
-others (net)	317.4	(+109.6)
B. Monetary Offsets	-1,341.6	-132.4
8. Coffee Operations	77.3	-41.9
-Coffee Defense Fund	(-22.2)	(-20.1)
-CREGE/CREAI Losses	(57.4)	(-12.9)
-rediscounts	(42.1)	(- 8.9)
9. Counterpart	-360.4	-110.0
-PL-480	(-61.9)	(- 0.4)
-AID	(-298.5)	(-109.6)
10. Exchange Burden	-164.9	+17.9
-Prior/deposits	(-37.1)	(+18.7)
-surcharges	(-127.8)	(-0.8)
11. Deposits Autonomous Agencies	-874.9	+20.3

	April 1966	
	End of Period	Change in Period
12. Resolution 21 Financing (net)	-18.7	-18.7
-Bond sales	(-24.3)	(-24.3)
-Refinancing	(5.6)	(+5.6)
II. Net Domestic Assets Outside Ceiling	1.312.3	99.5
13. Exchange Transactions	1,845.3	+101.9
-exchange operations account	(2,423.0)	(+189.3)
-guaranty deposits	(-339.3)	(- 48.5)
-others	(-238.4)	(- 38.9)
14. Compulsory/Time Deposits	-32.3	-0.7
15. Miscellaneous (net)	-500.7	-1.7
III. Total Net Domestic Assets (I+II)	4,443.0	+131.5
IV. Net Foreign Assets	-3.4	+0.9
V. Net Assets - Monetary Liabilities	4,439.6	+132.4
VI. Monetary Liabilities to Banks/Public	4,439.3	+132.1
A. Banks Monetary Reserves	1,806.6	+19.3
16. Legal Deposits	(945.2)	(+4.5)
17. Vol. Deposits	(540.6)	(-13.4)
18. Vault Cash 1/	(320.8)	(+28.2)
B. Public	2,632.7	+112.8
19. Currency	(1,760.4)	(+65.5)
20. Sight deposits	(872.3)	(+47.3)

1/ estimates.