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BRASILIA, BRAZIL

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TO : DEPARTMENT OF STATE  
INFO. : Brasília, Belém, Salvador, Belo Horizonte,  
São Paulo, Curitiba, Porto Alegre

FROM : AmEmbassy, RIO DE JANEIRO

June 10, 1966

SUBJECT: Central Bank Resolutions 23 and 24, and Circular 40

REF. : CERP - Section D

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1. Central Bank Resolution 23 (free translation attached as enclosure 1) of May 31, 1966 abolishes the US\$ 50,000 weekly limit on purchases of import cover by individual Brazilian importers. SUMOC Instruction 287 of January 14, 1965 had raised this limit from US\$ 30,000 to US\$ 50,000; with Resolution 23 there will no longer be any limit whatsoever. It is difficult to generalize as to the impact of Resolution 23; many firms had circumvented the former limitation by creating numbers of subsidiaries and distributing their exchange purchases among them.

2. Central Bank Resolution 24 (free translation attached as enclosure 2) of May 31, 1966 provides that holders of parallel market or other illegal instruments of indebtedness not regularized by emitters pursuant to the provisions of the Capital Market law providing for gradual liquidation of such indebtedness, may, themselves, initiate the process of registering these instruments with the Central Bank. This Resolution allows parallel note holders to avoid the penalty for parallel market investment prescribed by law No. 4728 of July 14, 1965 consisting of fine equal to half the nominal maturity value of the instrument. Resolution 24 is said to have been instigated by a resurgence of parallel credit activity.

3. Central Bank Circular 40 (free translation attached as enclosure 3) requires that all Finance Companies utilizing the proceeds of Adjustable

Enclosures:

- 1. Central Bank Resolution 23
- 2. Central Bank Resolution 24
- 3. Central Bank Circular 40

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Treasury Bond sales to finance their lending activities as per Central Bank Resolution 21 maintain at least 30 percent of such applications with firms providing installment credit to final consumers. Circular 40 was necessitated by the preemption of Resolution 21 credit by large manufacturers.

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CENTRAL BANK RESOLUTION No. 23  
(free translation)

The Central Bank of the Republic of Brazil in the form of the deliberation taken by the National Monetary Council in session of 5/31/1966, according to the dispositions of Article 4, insert V and Article 9 of Law No. 4,595 of 12/31/1964, resolves:

To revoke the limits on the closure of exchange contracts for import cover to which individual importers are subject. Instruction No. 287 of 1/14/1965 of the extinct Superintendency of Money and Credit is, therefore, revoked.

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CENTRAL BANK RESOLUTION No. 24  
(free translation)

The Central Bank of the Republic of Brazil in the form of a decision of the National Monetary Council taken in session of 5/31/66 and pursuant to paragraphs II of Article 2 and VIII of Article 10 of Law No. 4,728 of 7/14/65 and to Article 9 of Law No. 4,595 of 12/31/64, resolves:

I - Whenever enterprises responsible for instruments circulating in conditions prohibited by Law No. 4,728 of 7/14/65 have failed, for whatever cause, to utilize the facility provided in paragraph 2 of Art. 17 of that law, the bearers of such instruments may, during a period of 60 days from the present date, directly solicit registration with the Central Bank for purposes prescribed in insert VI of Art. 3 of Law No. 4,728.

II - Bearers of instruments who fail to undertake their regularization and presentation within the additional term herein provided shall be liable to the penalties imposed in paragraph 4 of Article 17 of Law No. 4,728.

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CENTRAL BANK CIRCULAR No. 40  
(free translation)

To Credit and Financial and mixed nature companies

Promulgated herewith, in accordance with deliberation taken by the National Monetary Council in meeting on present date, are additions to Circular No. 27 of 3/25/66 which regulates Resolution No. 21 of 3/15/66:

1) The Credit and Financial Companies and those of mixed nature that have been participating in the savings mobilization system created by Resolution No. 21 and those that may come to participate shall destine a minimum amount of 30% of the overall value of the operational ceilings obtained by application of Adjustable National Treasury Obligations to operations with enterprises that operate in the system of sales by instalments.

2) The Credit and Financial Companies and those of mixed nature shall have until 6/30/66 to comply to the disposed in item 1 above.

3) "Sale by instalment" is defined as sale to the final purchaser in return for payments in successive monthly parcels.

4) Contracts with enterprises making installment sales shall contain, besides the factors prescribed in item 8-II of Circular 27, a clause establishing the obligation of the borrower to maintain working capital of its own in amounts as recommended below.

5) The working capital of enterprises making instalment sales shall conform to the following minimum percentages in relation to the overall value of credit granted to instalment purchasers:

- 4% Starting from 9/30/66
- 6% Starting from 12/31/66
- 9% Starting from 3/31/67
- 12.5% Starting from 6/30/67
- 15% Starting from 12/31/67
- 17.5% Starting from 6/30/68
- 20% Starting from 12/31/68

6) The Credit and Financial Companies shall be responsible for enforcing this requirement; they shall require balance sheets to be presented on the above-listed dates and shall maintain these balance

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sheets for inspection at any time by the Central Bank of the Republic of Brazil; they shall also inform this Bank of any irregularity found in the position of a borrowing firm.

7) For the effect of the previous items, working capital is understood to equal paid in capital and free reserves minus fixed assets and investments in other entities.

8) Operations dealt with by Item 9 of Circular 27 may also be guaranteed by the deposit of promissory notes generated by the extension of credit by enterprises to the final purchasers of durable consumer goods.

9) To the maximum price increases prescribed in items 8-h and 9-b of Circular No. 27 may be added values of fiscal burdens inherent to the financial operation to be undertaken.

10) The period established in Circular No. 35 during which instruments representing the balance of sales made until 5/15/66 may be accepted in guarantee of operations of this kind, is extended through 6/30/66.

11) After 6/30/66 operations carried out in conformity with item 8-I - FINANCING OF WORKING CAPITAL - may only be guaranteed by "duplicatas" with maturities of at least 90 days.

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