

3.2 Technical Memorandum of Understanding

This technical memorandum defines the concepts used in quantifying certain variables of the economic program described in the letter dated March , 1984, and sets out models for periodic reporting.

The overall balance of payments target for calendar year 1984 referred to in paragraph 19 of that letter is a surplus of US\$4.30 billion. The intermediate quarterly targets are a surplus of US\$1.70 billion for the three-month period ending March 31, 1984; a surplus of US\$2.65 billion for the six-month period ending June 30, 1984; and a surplus of US\$ 3.65 billion for the nine-month period ending September 30, 1984. For the purpose of these targets, the balance of payments performance will be measured by changes in the net international reserve position of the monetary authorities (the Central Bank of Brazil and the Banco do Brasil), which is shown in the attached Table 1. However, in order to measure balance of payments performance, the change in the net international reserve position will be adjusted for net gold monetization. Furthermore, gold, SDRs, and nondollar assets and liabilities will be valued at the prices and exchange rate in effect on December 31, 1983.

2. The borrowing requirement of the nonfinancial public sector referred to in paragraph 17 of the letter will be defined as the sum of the net increases in the items described in the attached Table 2 above their respective stocks on December 31, 1983. These cumulative financing needs will not exceed Cr\$ 11,750 billion during the three-month period ending March 31, 1984; Cr\$ 23,750 billion during the six-month period ending June 30, 1984; and Cr\$ 35,500 billion during the nine-month period ending September 30, 1984.

3. The operational performance of the public sector referred to in paragraph 17 of the letter will be defined as the borrowing requirement of the nonfinancial public sector as defined in paragraph 2 above and in Table 2, less the sum of the monetary and exchange rate correction on the stock of

domestic public debt included in that borrowing requirement. The calculation of the monetary and exchange rate correction will be agreed mutually. The operational performance so defined will be a deficit not to exceed Cr\$1,300 billion on March 31, 1984; a deficit not to exceed Cr\$ 300 billion on June 30, 1984; and a deficit not to exceed Cr\$600 billion on September 30, 1984.

4. The monthly targets for the borrowing requirement of the Central Government, the state enterprises, and the state and municipal governments referred to in paragraph 12 of the letter are shown in Table 3. Actual monthly results will be communicated to the Fund with a lag of four weeks, and deviations from targets will be the subject of consultation with the Fund staff.

5. The monetary policy targets for 1984 mentioned in paragraph 18 of the letter translate for the purpose of the program into a set of limits on the net domestic assets of the monetary authorities; these assets are defined as the difference between the liabilities to the private sector and the net international reserves of the monetary authorities as shown in the attached Table 4. These net international reserves will be expressed in cruzeiros using mutually agreed accounting exchange rates. The net domestic assets so defined will not exceed Cr\$5,350 billion on March 31, 1984; Cr\$4,550 billion on June 30, 1984; and Cr\$2,800 billion on September 30, 1984.

6. The monthly targets for the money supply and the monetary base through September 1984 referred to in paragraph 18 of the letter are shown in the attached Table 5. Deviation from targets will be subject to consultation with the Fund staff.

7. The limits on new net external indebtedness referred to in paragraph 22 of the letter will be defined as the difference between disbursements and amortization of medium- and long-term external debt of both the public and private

sectors, plus changes in the net position of certain types of short-term indebtedness as described in the attached Table 6. The new external indebtedness so defined will not exceed US\$3.9 billion during the three-month period ending March 31, 1984; US\$6.8 billion during the six-month period ending June 30, 1984; and US\$9.1 billion during the nine-month period ending September 30, 1984.

8. Allowing for the customary lag in the publication of the relevant price index, the exchange rate policy described in paragraph 20 of the letter will be implemented in such a way that the percentage change in the cruzeiro value of the U.S. dollar on April 15, 1984 over its value of December 31, 1983 will be no less than the cumulative percentage change in the General Price Index Domestic Supply (IGP-DI) during the three-month period ending March 31, 1984; the percentage change in the cruzeiro value of the U.S. dollar on July 15, 1984 over its value on December 31, 1983 will be no less than the cumulative percentage change in the IGP-DI during the six-month period ending June 30, 1984; and the percentage change in the cruzeiro value of the U.S. dollar on October 15, 1984 over its value on December 31, 1983 will be no less than the cumulative percentage change in the IGP-DI during the nine-month period ending September 30, 1984.

Table 1. Net International Reserves of the Monetary Authorities ^{1/}
 (In millions of U.S. dollars)

	December 31 1983
I. <u>Assets</u>	<u>3,757.0</u>
A. Spot Assets	458.0
B. Short-term Assets	3,021.9
C. Medium and long-term Assets	277.1
II. <u>Liabilities</u>	<u>7,052.9</u>
A. Spot Liabilities	-
B. Short-term Liabilities	4,408.4
C. Medium-term-Liabilities (FMI) ^{2/}	2,644.5
III. <u>Net International Reserves (I-II)</u>	<u>-3,295.9</u>
IV. <u>Adjustments (cumulative)</u>	<u>579.1</u>
A. Gold monetization	556.7
B. Valuation gains or losses	22.4
V. <u>Net International Reserves, Adjusted (III-V)</u>	<u>-3,875.0</u>

Sources: DIBAP, Central Bank of Brazil.

^{1/} Central Bank and Banco do Brasil.

^{2/} Includes all repurchase obligations arising from the use of Fund resources in the first credit tranche, under the extended arrangement, the compensatory financing facility, and the buffer stock financing facility.

Table 2. Public Sector Borrowing Requirements
(In billions of cruzeiros)

	Dec. 1983 <u>1/</u>
1. Net credit from banking system	18,632
Monetary authorities	(4,716)
Commercial banks	(7,204)
Rest of banking system	(6,712)
2. Private sector holdings of public debt	2,776
3. Private sector holdings of state and municipal debt	1,525
4. Floating debt of state enterprises <u>2/</u>	406
5. Total domestic financing (1+2+3+4)	23,339
6. Foreign financing	265
7. Total public sector financing (5+6)	23,604

1/ Change in stocks between January 1983 and December 1983.

2/ To contractors and suppliers.

Table 3. Monthly Targets for Public Sector
 Borrowing Requirements

(Cumulative flows up to the end of the period; in billions of
cruzeiros)

	Central Government	States and Municipal Governments	State Enterprises	Foreign Financing ^{1/}
<u>1984</u>				
January	985	1,775	1,695	220
February	2,120	2,560	2,920	460
March	3,245	3,240*	4,105	715
April	2,605	5,690	6,245	1,250
May	3,595	6,225	7,935	1,550
June	4,805	6,865	10,720	1,600
July	5,815	9,115	12,810	1,800
August	6,620	9,735	14,435	2,000
September	7,620	10,335	15,930	2,200

^{1/} Foreign financing to states and municipal governments and
 to state enterprises.

Table 4. Net Domestic Assets of the Monetary Authorities
as of December 31, 1983
(In billions of cruzeiros)

A. <u>Liabilities to private sector</u>	3,419.5
1. Monetary liabilities	2,670.8
Currency	(1,841.9)
Currency Issued	/2,047.3/
Cash on hand Monetary Authorities	/-26.0/
Cash on hand Commercial Banks	/-179.4/
Demand Deposit in Banco do Brasil <u>1/</u>	(828.9)
2. Time deposits in Banco do Brasil	506.8
3. Other Liabilities	241.9
Deposits on Imports	(4.2)
Other Deposits of the Private Sector <u>2/</u>	(237.5)
Other Returning Deposits on International Travels (Resolution n° 380)	(0.2)
B. <u>Net international reserves</u> (Table 1, Line III)	<u>-3,226.7</u>
C. <u>Net domestic assets (A-B)</u>	<u>6,646.2</u>

1/ Account 60.25.10 of the Monetary Authorities Consolidated Balance Sheet.

2/ Accounts 70.10.10.50 and 70.10.10.75 of the Monetary Authorities Consolidated Balance Sheet.

ATTACHMENT

Table 5. Targets for Monetary Base and Money Supply
 (In billions of cruzeiros; end of period)

	Monetary Base	Money Supply (M-1)
<u>1983</u>		
December <u>1/</u>	4,197	7,783
<u>1984</u>		
January <u>1/</u>	4,408	7,433
February	4,373	7,390
March	4,281	7,320
April	4,409	7,880
May	4,502	8,250
June	4,763	8,710
July	4,925	8,880
August	4,900	9,220
September	5,219	9,490

1/ Actual data.

ATTACHMENT

Table 6. Net Disbursements of External Debt
(In Millions of U.S. dollars)

	Jan.-Dec. 1983
I. <u>Disbursements (medium-and long-term)</u>	12,124
A. Foreign loans and financing to Brazil	12,177
1. International organizations and government agencies	(2,504)
2. Medium-and long-term credit lines (Up to 24 months) for exports and imports	(-247)
3. Petroleum risk contracts	(25)
4. Suppliers' and Buyers' credits 1/	(991)
5. Law No. 4131 and Resolution No. 63 2/	(1,802)
6. Bonds	(--)
7. Project I (net)	(1,856)
Project I	/4,195/
Amortization of bridge loans	/-2,339/
8. Project II	(4,532)
9. Paris Club	(714)
10. Additional resources	(--)
B. Export Financing to residents (receipts)	7
II. <u>Amortization (medium-and long-term)</u>	8,011
A. Foreign loans and financing to Brazil	8,010
1. International organizations and government agencies	(900)
2. Government payments ("de governamentais")	(252)
3. Suppliers' and buyers' credits	(1,114)
4. Law No. 4131 and Resolution No. 63	(4,610)
5. Compensatory payments ("compensatorios")	(20)
6. Loan conversions into investments	(419)
7. Consolidated external public debt	(1)
8. Bonds	(275)
9. Paris Club 3/	(419)
B. Export financing to residents (expenditures)	1
III. <u>Short-term capital of commercial banks</u>	-684
IV. <u>Net disbursements of external debt (I-II+III)</u>	3,489
V. <u>Ceiling</u>	9,000
VI. <u>Margin under ceiling (V-IV)</u>	5,511

Source: DIBAP, Central Bank of Brazil.

1/ Excludes refinancing (which is included under Project II).

2/ Includes advances related to Project I and Resolution No. 767.

3/ Principal only.

ATTACHMENT