

Technical Memorandum of Understanding

This technical memorandum defines the concepts used in quantifying certain variables of the economic program described in the letter dated December 20, 1984 and sets out models for periodic reporting.

1. The intermediate quarterly targets consistent with the overall balance of payments result for calendar 1985 referred to in paragraph 17 of that letter are a deficit of US\$0.4 billion for the three-month period ending March 31, 1985 and a deficit of US\$0.2 billion for the six-month period ending June 30, 1985. 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 rates in effect on December 31, 1984.

2. The borrowing requirement of the nonfinancial public sector referred to in paragraph 14 of the letter will be defined as the net increases in the items described in the attached Table 2 above their respective stocks on December 31, 1984. These cumulative financing needs will not exceed Cr\$35,500 billion during the three-month period ending March 31, 1985, and Cr\$70,000 billion during the six-month period ending June 30, 1985.

3. The operational performance of the public sector referred to in paragraph 14 of the letter will be defined as the borrowing requirement of the nonfinancial public sector as described 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 has been agreed mutually. The operational performance so defined will be a surplus of not less than Cr\$5,300 billion during the three-month period ending March 31, 1985 and a surplus of not less than Cr\$13,000 billion during the six-month period ending June 30, 1985.

4. The net transfers from the federal state enterprises to the Central Bank referred to in paragraph 11 of the letter will be defined as the net increase in the items described in the attached Table 3 above their respective stocks on December 31, 1984. For this purpose, flows valued in foreign currency will be expressed in cruzeiros using the average exchange rate of each month, and flows valued in cruzeiros will exclude monetary correction. This cumulative transfer will be no less than Cr\$900 billion during the three-month period ending March 31, 1985 and no less than Cr\$2,600 billion during the six-month period ending June 30, 1985.

5. The monthly targets for the borrowing requirement of the Central Government, the state enterprises, the state and municipal governments, and the social security system referred to in paragraph 14 of the letter are shown in Table 4. Actual monthly results will be communicated to the Fund with a lag of not more than four weeks, and deviations from targets will be the subject of consultation with the Fund staff.

6. The monetary policy targets for 1984 mentioned in paragraph 16 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 5. Net international reserves for this purpose will be expressed in cruzeiros using mutually agreed accounting exchange rates. The net domestic assets so defined will not exceed a negative Cr\$5,000 billion on March 31, 1985 and will not exceed a negative Cr\$7,750 billion on June 30, 1985.

7. The targets for the money supply and the monetary base referred to in paragraph 16 of the letter are shown in the attached Table 6. The monetary base will be reported on an end-of-period basis. The money supply is defined as the arithmetic average of the closing balances on each working day during the month. Deviation from targets will be subject to consultation with the Fund staff.

8. The limits on the increase in net external indebtedness referred to in paragraph 18 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 7. The new external indebtedness so defined will not exceed US\$0.8 billion during the three-month period ending March 31, 1985 and US\$1.7 billion during the six-month period ending June 30, 1985.

9. Allowing for the customary lag in the publication of the relevant price index, the exchange rate policy described in paragraph 17 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, 1985 over its value on December 31, 1984 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, 1985, and the percentage change in the cruzeiro value of the U.S. dollar on July 15, 1985 over its value on December 31, 1984 will be no less than the cumulative percentage change in the IGP-DI during the six-month period ending June 30, 1985.

Attachments (7)

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

	Sept. 30, 1984
I. <u>Haveres (assets)</u>	<u>8,650.3</u>
A. Haveres prontos	664.0
B. Haveres a curto prazo	7,740.4
C. Haveres a medio e longo prazos	245.9
II. <u>Obrigacoes (liabilities)</u>	<u>5,769.6</u>
A. Obrigacoes prontas	--
B. Obrigacoes a curto prazo	1,870.1
C. Obrigacoes a medio e longo prazos (FMI) ^{2/}	3,899.5
III. <u>Reservas internacionais liquidas (I-II)</u> (net international reserves)	<u>2,880.7</u>
IV. <u>Ajustes (acumulado) adjustments (cumulative)</u>	<u>336.1</u>
A. Gold monetization	237.1
B. Valuation gains or losses	99.0
V. <u>Reservas internacionais liquidas, ajustadas</u> (III-IV) (net international reserves, adjusted)	<u>2,544.6</u>

Source: 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 Requirement
(In billions of cruzeiros)

Sept. 30, 1984 1/

1. Net credit from banking system	21,769
Monetary authorities	(-5,784)
Commercial banks	(12,688)
Rest of banking system	(14,865)
2. Private sector holdings of public debt	15,675
3. Private sector holdings of state and municipal debt	3,312
4. Floating debt of state enterprises <u>2/</u>	471
5. Total domestic financing (1+2+3+4)	41,227
6. Foreign financing	2,963
7. Total public sector financing (5+6)	44,190

1/ Change in stocks between December 1983 and September 1984.
2/ To "empresiteiros e fornecedores."

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Table 3. Position of State Enterprises at Central Bank of Brazil
(In billions of cruzeiros)

	Sept. 30, 1984
<u>Total</u>	<u>-2,227</u>
Holdings of government securities	2,024
Deposits under special arrangements	3,759
Less: Foreign lines of credit	-8,010

Table 4. 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 1/	State Enterprises	Social Security System
<u>1985</u>				
January	2,850	6,800	2,900	370
February	7,700	8,700	5,200	480
March	14,600	11,200	9,500	600
April	19,500	18,500	12,800	510
May	24,400	20,300	15,000	630
June	28,500	21,800	21,800	910

1/ Includes foreign borrowing.

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Table 5. Net Domestic Assets of the Monetary Authorities
as of September 30, 1984

(In billions of cruzeiros)

	Sept. 30, 1984
A. <u>Obrigacoes junto ao setor privado</u> (liabilities to private sector)	6,890.1
Obrigacoes monetarias (monetary liabilities)	5,257.3
1. Papel moeda en poder do publico	(3,612.0)
Papel moeda emitido	/4,037.3/
Caixa das autoridades monetarias	/-52.8/
Caixa das bancos comerciais	/-372.5/
2. Depositos a vista do setor privado <u>1/</u>	(1,645.3)
Depositos a prazo no Banco do Brasil (time and savings deposits)	1,331.3
Outras obrigacoes (other liabilities)	301.5
1. Depositos sobre importacoes	(66.1)
2. Depositos diversos do setor privado <u>2/</u>	(235.2)
3. Depositos diversos restit. s/viagem exter. (Res. 380)	(0.2)
B. <u>Reservas internacionais liquidas</u> (net international reserves)	6,470.1
Tabela 1, linha III (Table 1, line III)	6,470.1
C. <u>Credito interno liquido (A-B)</u> (net domestic assets)	420.0

1/ Conta 60.25.10 do Balancete Consolidado das Autoridades Monetarias.

2/ Contas 70.10.10.50 a 70.10.10.75 do Balancete Consolidado das Autoridades Monetarias.

Table 6. Targets for Monetary Base and Money Supply

(In billions of cruzeiros)

	Money Base <u>1/</u> (End of Period)	Money Supply (M-1) (Average)
<u>1984</u>		
December <u>2/</u>	10,150	20,400
<u>1985</u>		
March	9,643	19,560
June	11,185	22,000

1/ Excludes demand deposits at Bank of Brazil and includes reserve requirements on these deposits.

2/ Estimate.

Table 7. Net Disbursements of External Debt

(In millions of U.S. dollars)

	January - September 1984
I. <u>Disbursements (medium- and long-term)</u>	<u>12,474</u>
A. Foreign loans and financing to Brazil	12,474
1. International organizations and government agencies	(1,818)
2. Medium- and long-term credit lines (up to 24 months) for exports and imports	(-70)
3. Petroleum risk contracts	(12)
4. Suppliers' and buyers' credits <u>1/</u>	(407)
5. Law No. 4131 and Resolution No. 63 <u>2/</u>	(122)
6. Bonds	(--)
7. Project I (net)	(5,573)
Project I	/5,573/
Amortization of bridge loans	/--/
8. Project II	(3,127)
9. Paris Club	(1,395)
10. Additional resources	(--)
B. Export financing to residents (receipts)	--
II. <u>Amortization (medium- and long-term)</u>	<u>6,192</u>
A. Foreign loans and financing to Brazil	6,192
1. International organizations and government agencies	(522)
2. Government payments ("de governamentais")	(206)
3. Suppliers' and buyers' credits	(686)
4. Law No. 4131 and Resolution No. 63	(3,051)
5. Compensatory payments ("compensatorios")	(14)
6. Loan conversions into investments	(597)
7. Consolidated external public debt	(--)
8. Bonds	(101)
9. Paris Club <u>3/</u>	(1,015)
B. Export financing to residents (expenditures)	--
III. <u>Short-term capital of commercial banks</u>	<u>721</u>
IV. <u>Net disbursements of external debt (I-II+III)</u>	<u>7,003</u>
V. <u>Ceiling</u>	<u>8,600</u>

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.



BANCO CENTRAL DO BRASIL

Informações e Despachos

Dados constantes da capa do processo/dossiê
Unidade/subunidade

Data Pt/documento

Pt/documento

Derin/Geori

10/07/2008

0801418706

Nome ou título/assunto-padrão

Cartas de Intenções do Brasil ao FMI de 1983 a 1998

ARQUIVE-SE

Em anexo

DOCUMENTO VOL. 1

Encerrado em 2008

DERIN GEORI

10,10,2008

Unidade Subunidade

Data

Assinatura e carimbo

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Continua no vol. 2