

ATTACHMENT

Brasilia  
September 15, 1983

Technical Memorandum of Understanding

This technical memorandum defines the concepts used in quantifying certain variables of the economic program described in the letter dated September 15, 1983, and sets out models for periodic reporting.

1. The overall balance of payments target for calendar year 1983 as described in paragraph 2 of that letter is at least equilibrium. In the light of the performance so far this year, the target for the nine-month period ending September 30, 1983 is a deficit of not more than US\$3.1 billion. 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, 1982. In addition, any reduction in the short-term liabilities of the monetary authorities that results from the refinancing of bridge operations from the BIS and foreign banks obtained prior to December 31, 1982 will not be considered for the purpose of these targets. The targets for the balance of payments referred to above and the limits on the net domestic assets referred to in paragraph 4 below are based on the assumption that, insofar as already agreed commitments are concerned, certain delays in disbursements by foreign commercial banks will be made up in the fourth quarter of 1983, and they are also based on assumptions regarding additional external financing for 1983.

2. The borrowing requirement of the nonfinancial public sector referred to in paragraph 10 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, 1982. These cumulative financing needs will not exceed Cr\$14,900 billion during the three-month period ending September 30, 1983, and Cr\$19,350 billion during the three-month period ending December 31, 1983.

3. The monthly targets for the borrowing requirements of the Central Government, the state enterprises, and the state and municipal governments referred to in paragraph 12 of the letter are shown in the attached 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's staff.

4. The monetary policy targets for 1983 mentioned in paragraph 13 of the letter translate for the purpose of this 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 rates. The net domestic assets so defined will not exceed Cr\$5,600 billion on September 30, 1983, and Cr\$3,540 billion on December 31, 1983.

5. The limits on new net external indebtedness referred to in paragraph 16 of the letter will be defined as the difference between disbursements and amortizations 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 5. The new external indebtedness so defined will not exceed US\$5.5 billion on September 30, 1983, and US\$9.0 billion on December 31, 1983. Any loans obtained to refinance short-term liabilities of the *monetary authorities* resulting from bridge operations carried out before December 31, 1982 will not be counted against the net external indebtedness limits.

6. Allowing for the customary lag in the publication of the relevant price index, the exchange rate policy described in paragraph 15 of the letter will be implemented in such a way that the percentage change in the cruzeiro value of the U.S. dollar on October 15, 1983 over its value of February 28, 1983 will be no less than the cumulative percentage change in the General Price Index Domestic Supply (IGP-DI) during the seven-month period ending September 30, 1983; the percentage change in the cruzeiro value of the U.S. dollar on January 15, 1984 over its value on February 28, 1983 will be no less than the cumulative percentage change in the IGP-DI during the ten-month period ending December 31, 1983.

7. The minor exchange restrictions referred to in paragraph 15 of the letter are (i) limits on outward remittances of technical assistance fees and royalties; (ii) contribution quotas on coffee and cocoa; (iii) exchange taxes on exports of orange and tangerine juice, corn bran, and hides of beef cattle; (iv) a graduated supplementary tax on outward remittances of profits and dividends; and (v) bilateral payments agreements with Hungary and Romania.

8. The payments arrears referred to in paragraph 15 of the letter, which on August 31, 1983 amounted to US\$2,534 million, will be eliminated by December 31, 1983.

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

	June 30 1983
I. <u>Assets</u>	<u>2,940.8</u>
A. Haveres prontos	677.8
B. Haveres a curto prazo	1,739.7
C. Haveres a medio e longo prazo	523.3
II. <u>Liabilities</u>	<u>7,434.8</u>
A. Obrigacoes prontas	--
B. Obrigacoes a curto prazo	5,978.3
C. Obrigacoes a medio prazo (FMI) <u>2/</u>	1,456.5
III. <u>Net international reserves (I-II)</u>	<u>-4,494.0</u>
IV. <u>Adjustments (cumulative)</u>	<u>225.6</u>
A. Gold monetization	255.2
B. Valuation gains or losses	-29.6
V. <u>Net international reserves, adjusted (III-IV)</u>	<u>-4,719.6</u>

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)

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	June 1983 <u>1/</u>
1. Net credit from banking system	5,922
Monetary authorities	(1,697)
Commercial banks	(2,175)
Rest of banking system	(2,050)
2. Private sector holdings of public debt	1,276
3. Private sector holdings of state and municipal debt	586
4. Floating debt of state enterprises <u>2/</u>	155
5. Total domestic financing (1+2+3+4)	7,939
6. Foreign financing	710
7. Total public sector financing (5+6)	8,649

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1/ Change in stocks between December 1982 and March 1983.

2/ To "empresiteiros e fornecedores."

Table 3. Brazil: Monthly Targets for Public Sector Borrowing Requirements  
(Stocks at the end of the period; in billions of cruzeiros)

	Central Government	States and Municipal Governments	State Enterprises <sup>1/</sup>
<u>1983</u>			
June	6,792	5,928	8,687
July	7,658	6,616	9,922
August	8,280	7,185	10,645
September	8,570	7,780	11,365
October	8,700	8,760	12,485
November	8,750	9,090	13,205
December	8,900	9,335	13,945

<sup>1/</sup> Total accumulated flows of foreign financing during 1983 added to the stocks of domestic financing.

Table 4. Net Domestic Assets of the Monetary Authorities  
as of May 31, 1983

(In billions of cruzeiros)

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A.	<u>Liabilities to private sector</u>	1,920.84
	Monetary liabilities	1,557.21
	1. Papel moeda	(1,028.64)
	Papel moeda emitido	/1,182.31/
	Caixa das autoridades monetarias	/-23.57/
	Caixa dos bancos comerciais	/-130.10/
	2. Depositos a vista	(528.57)
	Depositos a vista do setor privado <u>1/</u>	/528.57/
	Time and savings deposits	275.83
	Depositos a prazo no Banco do Brasil	(275.83)
	Other liabilities	87.80
	1. Depositos sobre importacoes	(8.55)
	2. Outros	(79.25)
	Depositos diversos setor privado <u>2/</u>	/79.09/
	Depositos diversos restit. s/viagem exter. (Res. 380)	/0.16/
	Depositos diversos restit. s/oleo combust. (Res. 413)	/--/
	Depositos diversos restit. s/empr. compuls. (DL 1782)	/--/
B.	<u>Net international reserves</u>	-1,578.83
	Table 1, line III	-2,163.41
	Refinancing of bridge operations	584.58
C.	<u>Net domestic assets (A-B)</u>	<u>3,499.67</u>

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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 5. Net Disbursements of External Debt

(In millions of U.S. dollars)

	Jan.-March 1983
I. <u>Disbursements (medium- and long-term) 1/</u>	<u>3,419</u>
A. <u>Emprestimos e financiamentos estrangeiros ao Brasil</u>	<u>3,419</u>
1. Organismos internacionais e agencias governam.	(406)
2. Linhas de credito de exportacao e importacao de medio e longo prazo (acima de 24 meses)	(-116)
3. Contratos de risco (petroleo)	(6)
4. Suppliers' and buyers' credits	(216)
5. Lei No. 4131 e Resolucao 63	(555)
6. Bonus	(--)
7. Projeto I (net)	(1,389)
Projeto I	/2,576/
Amortizacao de bridges	/-1,187/
8. Projeto II	(963)
B. Financiamentos a residentes para exportacao (receita)	--
II. <u>Amortization (medium- and long-term)</u>	<u>1,736</u>
A. <u>Emprestimos e financiamentos estrangeiros</u>	<u>1,736</u>
1. Organismos internacionais e agencias governam.	(148)
2. De "governamentais"	(211)
3. Suppliers' and buyers' credits	(323)
4. Lei No. 4131 e Resolucao 63	(992)
5. Compensatorios	(3)
6. Conversao em investimentos	(52)
7. Divida publica externa consolidada e acervos	(4)
8. Bonus	(3)
B. Financiamentos a residentes para exportacao (despesa)	--
III. <u>Short-term capital</u>	<u>-356</u>
Bancos comerciais	-356
IV. <u>Net disbursements of external debt (I-II+III)</u>	<u>1,327</u>
V. <u>Ceiling</u>	<u>3,000</u>
VI. <u>Margin under Ceiling (V-IV)</u>	<u>1,673</u>

Source: DIBAP, Balanço de Pagamentos.

1/ Excludes disbursements of loans to refinance short-term bridge financing obtained by the monetary authorities prior to December 31, 1982.