

## Brazil Overview

Brazil is the largest country in Latin America and one of the founding members of the Mercosur trade association. Its population is 162 million with a GDP of \$775 billion U.S. for 1998.

The unit of currency is the Brazil Real (BRL). It is divided into 100 centavos and is referred to as the Real (plural Reais). From the time of its inception under the Plano Real in July 1994 until January 1999, the Brazilian Real operated using an exchange rate anchor which was tied to the USD. It operated using a band which allowed for a 0.6% per month (7.0% per annum) depreciation of the Real. However, as a result of extreme pressure on its foreign currency reserves needed to defend an overvalued Real, the Central Bank of Brazil allowed the Real to float freely in January 1999. The exchange rate has settled in at the BRL 1.90/USD range compared to BRL 1.20 in early January 1999.

The Banco Central do Brazil (BCB), located in Brasilia, is the central bank of Brazil and regulates all financial institutions in the country. Significant central bank reporting requirements govern cross border transactions and the regulatory environment continues to be complicated and dynamic.

Brazil's foreign exchange system is still highly regulated and restricted by the BCB. It operates using a dual exchange rate structure with official (commercial) and tourist (floating) rates. Foreign exchange must take place through an authorized financial institution. All import, export and most financial transactions flow through the commercial market while other transactions such as payments for tourism and professional services flow through the tourist market. In late 1999, Brazil reported that its foreign exchange plans include both the free convertibility of its currency and elimination of controls on capital outflows, next steps to fine-tuning the free-float currency it adopted at the beginning in the year. When these changes occur, they will be major steps forward for multinational companies doing business in Brazil.

All licensed banks maintain a single reserve account with the Banco Central do Brazil. The BCB owns and operates a system called the Sistema de Informacoes Banco Central (SISBACEN). SISBACEN is a real time network which participants use to settle interbank transactions on a gross basis. Settlement depends on the type of transaction. Banks are prohibited by law from maintaining correspondent accounts with each other so all interbank transactions flow through SISBACEN. There are no minimum or maximum values for transactions through SISBACEN.

The Banco do Brazil - not to be confused with the BCB - is a government owned commercial bank that serves as the national clearing house for the main payment and collection instruments. There are three main instruments that relate to cash and treasury management.

1. Credit Order Documents (DOCs) are used mainly for making interbank payments and intracompany and third party payments

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within the same financial institution. They are processed electronically, in batch, and settled through the clearing house on the next business day. Bank customer initiation of a DOC can be made electronically or by paper application. All DOCs settle through the national clearing house. During 1998, DOCs comprised about 1% of clearing house items by volume and 45% by value.

2. Checks are still the most widely used non-cash payment instrument in Brazil. They also settle through Banco do Brasil, the national clearing house. Checks exchanged in the same "pracas" (regional clearing houses) are cleared in 48 hours if the value of the check is equal or lower than R\$299 and in 24 hours if the value of the check is over R\$299. Checks exchanged between different pracas are cleared in 3 to 7 days, depending on the distance between the pracas. Pre-dated checks (commonly known as post-dated) checks are widely used and accepted in Brazil. During 1998, checks comprised about 69% of clearing house items by volume and 42% by value.
3. Bloquetos de Cobranca consist of a bloquete, a two-part document that serves as the buyer's payment receipt and interbank clearing document. The bloquete is issued by the seller to the buyer or consumer and contains both invoice information, payment amount and due date. Users may take the bloquete to any bank in Brazil and pay the face value of the bloquete along with any fees assessed to the bank. The interbank settlement portion of the bloquete, which uses bar code technology, is automatically scanned at the bank of first deposit. Following information capture, all bloquetes are transmitted by the receiving bank to Banco do Brasil, the national clearing house for bloquetes. Banco do Brasil processes the files at the end of each business day and credits the banks on which the bloquetes were drawn. Banks, in turn, credit their customers' accounts. Most major banks send a daily transmission of bloquetes which were paid to their corporate clients so that companies can update their accounts receivable systems. During 1998, bloquetes comprised about 15% of the clearing house items by volume and 9% by value.

Companies are considered to be resident in Brazil if they are organized under Brazilian law and maintain management and control within Brazil. Resident companies are taxed on their worldwide income net of tax treaties. Non residents are subject to taxation on their Brazilian source income. The basic rate of tax is 15% with a surtax of 10% on income over BRL 240,000. A social contribution tax is added to this at the rate of 8% for businesses and 18% for financial institutions. Accordingly, the effective corporate tax rate varies from 33% to 43%.

### **Treasury Management**

Many common treasury management techniques are not permitted in Brazil including leading/lagging and re-invoicing. Multilateral netting and participation in cash pooling are also prohibited. Brazil imposes a transaction tax on debits to current accounts known as the Contribuicao Provisoria sobre Movimentacao Financeira (CPMF). This is 0.38% of the value of the debit where the credit is to an account with a different tax id number.

Zero balance account structures (where funds physically move from sub-accounts to a parent account) are permitted and used in Brazil.

[Banco Real](#), [Banco America do Sul](#), [Banco da Amazonia SA](#), [Banco Itaú S.A.](#), [Citibank Brazil](#), and [HSBC Bank Brasil S.A.](#) - [Banco Múltiplo \(Portugese only\)](#)

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Overnight investments are permitted, although high bank reserve requirements may make short-term investments more cost-effective than overnight investments.

## **Accounts**

The basic BRL operating account is referred to as a current or checking account and can be held by resident or non-resident corporations. Interest is not paid on current accounts and savings accounts generally pay interest monthly. Liquid mutual funds which pay daily or monthly interest are an option for earning interest on idle funds. Overdrafts on current accounts are permitted by prior arrangement with the account holding bank.

Resident or non-residents may hold accounts in Brazil. These accounts, however, may only be held in BRL.

Resident corporations (with very few exceptions) may not maintain offshore accounts in USD or other currencies. Although Brazilian companies may invoice companies outside of Brazil in USD, these funds, when received, must be immediately converted into BRL and deposited into the seller's account in Brazil in BRL.

There are a number of short-term investment options for resident or non-resident corporations. Highly liquid mutual funds and savings accounts are the principal options along with government securities and CDs.

Overdrafts are permitted, with the amount and rate determined by each bank. Along with money market lines - essentially revolving credit - they comprise the principal sources of short-term finance. In general, bank finance continues to be a major source of funding.

## **Payments and Receipts**

Checks, cash, and ATMS are widely used in retail settlements. Because only 30% of Brazilians maintain current accounts, cash is still widely used for making consumer payments. Corporate receipts are usually in the form of bloquetes and DOCs. Direct credits between banks can be affected through the use of DOCs. Direct debits are used in Brazil but only within the same bank on a book-to-book basis, not between different banks. Accordingly large volume collections are typically facilitated through the use of bloquetes and a multibank network.

Pre-dated checks (called post-dated checks in other countries) are commonly used in Brazil. Some banks provide check custody services where the pre-dated checks are deposited on their due date and credited the seller's account. The check custody service is typically done through the receivables factoring arm of the financial institution providing the service.

Lockbox is not used in Brazil (as is the case in other Latin American countries) because the mail systems in the region are unreliable and never used for making payments. The national bloquete system provides a highly effective functional alternative.

## **Technology and Marketplace**

Brazil has a modern telecommunications system including fiber optic cable and digital switches. Bandwidth is reasonably priced and readily available. In addition to an excellent infrastructure, Brazil also has a number of value

added networks (VANs) that enable efficient domestic electronic commerce.

Brazil is an exceptionally efficient banking market with strong quasi governmental banks offering commercial services (Banco do Brazil) and technically competent local banks. As of March 1999, there were a total of 222 banks maintaining reserve accounts with the Banco Central do Brazil. Only a relatively small group of these banks offer cash and treasury management services. BankBoston and Citibank both have been operating in Brazil for over 50 years and have a significant local presence. Other international banks with a large presence include HSBC through Banco Multiplo and ABN AMRO through Banco Real. Chase, Bank of America and Deutsche help serve to complete the picture from an international banking perspective. Spanish banks BBV and Banco Santander own local banks as does the Italian bank BNL.

## Treasury Management in Brazil



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