

Henrique Meirelles: Brazil-Argentina Local Currency Payment System

Speech by Mr Henrique Meirelles, Governor of the Central Bank of Brazil, at the Inauguration of the Brazil-Argentina Local Currency System, Buenos Aires, 2 October 2008.

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It is an honor to attend today the launching of the Brazil-Argentina Local Currency Payments System (SML). I am certain that this initiative will be a watershed in the bilateral relations between the two nations. Coincidentally, the new system kicks off in a period of financial turmoil and liquidity crunch in international trade, in which cooperation among central banks becomes fundamental to facilitate trade and to deepen economic ties.

Central banks are responsible for ensuring adequate international payments systems. In processes of economic, financial and trade integration, the objective is to establish an efficient payments structure for intra-regional transactions. When flexible and unobstructed payments systems are available, trade transactions flow with greater ease and lower costs, and financial flows tend to intensify. This is what we expect from the new SML system.

Initial obstacles have been overcome. The mechanism of the SML will trigger significant changes in the way in which companies export and import. In Brazil, exporters may now operate in *real*, while Argentine businesspeople may operate in *pesos*. Each one of our countries established a consistent framework for management of the system. The priority was to create a secure arrangement that will provide both exporters and importers with a simplified way to settle their transactions with a degree of ease similar to that with which they effect payments within their own countries. From this point forward, there is no doubt that the private sector will take it upon itself to create new financial products and further deepen the real-peso market.

Indeed, deepening of the *real-peso* market, reduction of trade obstacles and access on the part of small and medium exporters are the primary objectives of this initiative. Despite non-compulsory, the facilities and lower costs of the SML should attract exporters and importers. There will be no foreign exchange contracts, despite documentation currently required will remain mandatory. The essential alteration for Brazilian exporters will be the need to register the operation in real.

With elimination of a third currency in direct transactions among companies, exporters will set their prices in the currency of their own countries. Thus, they will be better able to calculate their margins precisely, since they will no longer be exposed to exchange rate risk.

At the start, it will be possible to carry out trade operations between the two countries with terms of up to 360 days. Payments of services related to trade (for example, freight and insurance) can also be made in own currencies.

Operations may be contracted on the basis of an exchange rate negotiated with financial institutions or the SML rate itself, calculated based on the average *real*-dollar rate published daily by the Central Bank of Brazil, and the Argentine reference *peso*-dollar rate. At the closing of both markets, the SML rate will be announced daily. Financial settlement of operations carried out through the system will take place in three business days (d+2). Banking institutions that have Reserve Accounts at the Brazilian Central Bank may be accredited to operate in the system. Authorization to operate on the exchange market is not a prerequisite.

The SML is a highly promising initiative for small and medium businesses that have less access to derivative mechanisms to neutralize foreign exchange risk. At the same time, large companies have also shown interest in the system, primarily those that already have mature operations in the two economies.

There is no doubt whatsoever that the system we have just inaugurated will not only stimulate trade transactions between Brazil and Argentina but also enhance competitiveness in both countries.

This initiative is a first and important step forward toward greater integration of our economies and of Mercosul. Congratulations to all of those who have played a role in making this historic moment feasible.

Thank you.