 by Andrea Olivieri

Brazil forced to back down

U.S. government and banks force backdown by Brazil on debt proposal.

Less than two weeks after proposing a "radical" scheme to reduce Brazil's debt burden, Brazil's Finance Minister Luis Bresser Pereira emerged from a meeting with U.S. Treasury Secretary James Baker Sept. 8 to announce that Brazil would abandon its plan and try to work out a more "conventional" debt refinancing agreement with the commercial banks.

From the Brazilian side, the proposal to make the banks eat up to $15 billion of their Brazilian loans, was an attempt by Bresser to appear to the Brazilian population to be sticking it to the banks, given the strong and volatile nationalist sentiment in the country in defense of the nation's seven-month-old debt moratorium.

From the standpoint of the international banks for which Baker is a spokesman, it was essential to smash Bresser's proposal quickly, for fear it would ignite a general movement for debt moratoria throughout the Third World.

All summer, Bresser had maintained Brazil's position, that Brazil required a guarantee of $7.2 billion in new loans, to be used to meet the interest payments on Brazil's $110 billion debt due in 1987 and 1988.

Bresser has further demanded that this money be lent at 0% above the London Interbank Rate, and he has reaffirmed Brazil's position that in no case will Brazil submit to economic surveillance by the International Monetary Fund (IMF).

At the beginning of September, as he departed from Brazil for a conference in Vienna on international debt, Bresser revealed that Brazil would be presenting a new proposal, with "creative financing ideas," at the scheduled meeting with the banks at the end of September, and that Secretary Baker had requested that Bresser outline the plan to him as soon as possible.

The proposal called for 50% of Brazil's $67 billion worth of debts to the banks, which are now in moratorium, to be exchanged for government bonds at the rate of perhaps 70 cents on the dollar.

Bresser argued that this is just, as Brazil's debt now trades at only 55 cents on the dollar in the secondary debt market, so Brazil would give the banks 15 cents more, and keep the other 30 cents of the discount. The bonds would be for 20-25 years, at 3% interest.

The remainder of the debt would be refinanced conventionally, but still with the 0% spread over the London Rate, and "without the same guarantee of repayment."

The response of the U.S. banks was not slow in coming. The *Wall Street Journal* Sept. 8 commented that Bresser's proposal "seems to ensure an outright confrontation between Brazil and its foreign creditors lasting many months." It quoted an anonymous banker saying, "This would put the banks under. It's the doomsday scenario. Bresser has no idea what that kind of proposal means for the banks."

It was left for Treasury Secretary Baker to bluntly order Bresser to drop his plan, in their meeting the next day. Bresser emerged from the session to announce that he and Baker had "agreed" that Brazil would seek "more conventional" arrangements.

Bresser's home office in Brasilia announced that they never expected the banks to agree to such a radical idea immediately. For his part, Bresser tried to make it appear that the result was a compromise, in which Baker had agreed not to demand that Brazil accept IMF surveillance this year.

Bresser said, "We took a step forward, I took a step back, a little, very little, step."

The banks' fear is that any concessions to Brazil will trigger a continent-wide rebellion against IMF and bank policy of demanding debt payments, no matter what the internal cost.

On Nov. 27, the Presidents of the top debtor countries in the continent will meet in Mexico to discuss their options. The banks don't want any surprises at that meeting.

However, the banks, Baker and the IMF are ignoring reality inside Brazil itself, where the IMF and its austerity dictates have intransigent enemies both within the ruling PMDB party and in a powerful faction of the Brazilian military.

On Aug. 20, the PMDB issued a limited-circulation memorandum which demanded a "unilateral" negotiating scheme from the government—including refusal to make a "symbolic payment" on the debt—and replacement of Bresser's internal "adjustment" program.

On Aug. 2, Army Minister Leonidas Pires Gonçalves delivered a surprise television message, announcing that the army would not abandon its plan to modernize with the most advanced technologies available.

The army chief's announcement, together with the military-supervised uranium enrichment breakthrough (see story, page 12), is widely viewed as a direct challenge to Bresser.