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Will U.S. taxpayers pay banks interest on Brazil's debt?

by Mark Sonnenblick

The long-awaited U.S. government decision on whether to force commercial banks to downgrade Brazilian debt was postponed, once again, on Oct. 26. The Interagency Country Exposure Risk Committee extended its semi-annual meeting for a week to facilitate last-minute efforts to get Brazil to break the debt moratorium it declared Feb. 20. The committee is to decide whether U.S. banks can continue to count as good assets over $20 billion of Brazilian debt on which not a penny has been paid since Feb. 20. The Brazilians would like the committee to let the matter ride until its next meeting in March. The banks would like Brazil to simply pay up.

The talks in New York and Washington have revolved around designing Halloween costumes to mask the bankruptcy of Brazil and its equally insolvent creditors. The United States is seeking "a diplomatic deal" to hold up the market value of banks' stocks, a Wall Street banker told *O Estado de Saõ Paulo* Oct. 26. He noted, "The U.S. government is very apprehensive about the stock market. A crisis unleashed by Brazil being reclassified at this time would be . . . an earthquake in the banking industry. With that, the exchange might once again deflate." To prevent market disturbances, the U.S. financial media virtually blacked out the negotiations.

If Brazil's debts were declared "value impaired," it would also "worsen the chances of ending Brazil's suspension of interest on its $68 billion longer term debts. That, in turn, could mark a further weakening of strategy for handling the five-year-old developing country debt crisis . . . [which] could make bank shares more vulnerable," London's *Financial Times* remarked. In fact, Washington has no "strategy for handling the debt crisis," except for bludgeoning debtors to pay what they cannot.

Brazilian president José Sarney is profiled by creditors as so scared of being blamed for collapsing the stock market, that he is willing to tolerate Rube Goldberg debt schemes which do nothing to stop Brazil's steadily declining economy from getting out of control. Sarney pleased Wall Street by sending Fernáo Bracher (who was thrown out as central bank president in March for trying to sabotage the debt moratorium) to run the debt talks. But the deals are actually being cut by Brazil's lawyer, William Dill Rogers, formerly Henry Kissinger's Assistant Secretary of State for Inter-American Affairs, now senior partner in Kissinger Associates, Inc.

Federal Reserve chief Alan Greenspan and Assistant Treasury Secretary David Mulford proposed, and Bracher accepted, the idea that Brazil would make a large deposit into a blocked account at the Federal Reserve or the Bank for International Settlements in Switzerland, *Jornal do Brasil* reported Oct. 24. The banks would only get their hands on the money after they had agreed with Brazil on refinancing up to $10.4 billion of the interest due in 1987, 1988, and 1989.

The political snag

The banks are unwilling to negotiate seriously on any medium- or long-term debt problem so long as the forces led by ex-Finance Minister Dilson Funaro are strong enough to keep the government from accepting any deal which does not permit Brazil to resume economic growth.

Sarney put his government through a debilitating month-long cabinet crisis in an effort to purge nationalists from the government coalition. The move aborted. Part of the banker faction left the government and busied itself plotting military coups, while the forces backing Funaro lost nothing. The fact that Sarney still needs the cooperation of the Brazilian Democratic Movement Party (PMDB) rules out his publicly accepting banker demands that Brazil simply end its moratorium now and later put Brazil back under the genocidal programs of the International Monetary Fund.

The PMDB has vetoed any "symbolic payment" by Brazil of part of the $4.3 billion in interest withheld by the moratorium. As far as can be ascertained from the Brazilian press, Bracher, Rogers, Greenspan, Treasury, and the 14-bank Brazil advisory committee have agreed that Brazil would deposit up to $1.5 billion in some escrow account, and the banks would deposit new loans of about $3 billion in the same account. The "big snags" which the *Journal of Commerce* reported on Oct. 29 seem to be over how much each side would deposit, under what conditions, and what kind of medium-term debt settlement the banks would have to accept before they would get the escrow money in their cash drawer.

Brazil declared a moratorium Feb. 20 when its reserves fell below $4 billion. Since Brazil has paid $4.2 billion interest on its short-term lines and debts to governments, reserves are now not even $5 billion. Sarney is in no position to give the bankers a large part of Brazil's monetary reserves, especially when the Reagan administration is threatening to restrict key exports from Brazil and the Brazilians see the U.S. market entering a deep recession, in any case. Thus, the talks have ended up seeking to have the United States government to pay a large part of the interest arrears. The Treasury would give "a kind of a bridge credit, but with a more complicated formula," a banker explained. The problem is, the bridge goes nowhere; the bailout of the banks would end up as part of the U.S. budget deficit.

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