

Report from Rio by Lorenzo Carrasco

Back on the usury merry-go-round

Brazil is paying its foreign debt at the expense of snowballing the internal debt—but not for long.

The creditor banks have filled Brazil's press with propaganda claiming that the country lost money because of its February to December 1987 debt moratorium. The bank's "solution" to the debt crisis, about to be formalized by means of a standby agreement with the International Monetary Fund (IMF), will not bring any debt relief.

Almost all of the \$5.2 billion in "new money" the commercial banks will disburse under their part of the package will go out one pocket and back into the other, in payment for interest withheld during the moratorium.

In the name of making itself eligible for such "new money" and for "foreign investment," Brazil will continue shipping out over \$10 billion per year in interest payments.

That loss of capital is equal to 20% of all domestic savings, and leaves Brazil without the resources needed to invest in its own development.

Since abandoning the moratorium last December, the Brazilian government has paid back current interest punctually without receiving new loans or new foreign investment. It did so at the expense of an explosive increase in internal debt.

Finance Minister Maílson da Nóbrega is using the tricks he learned working for monetarist minister Delfim Netto. He is financing foreign debt payments by borrowing on the internal market at astronomic interest rates.

The government paid 13% real interest above inflation on its latest borrowings.

When Dilson Funaro was finance minister, from 1985 to April 1987, the size of the internal public debt remained constant in real terms. He fought to lower interest rates. After he was forced out of office, the volume of borrowing and interest rates took off.

They skyrocketed after the end of the moratorium. Thus, from December 1987, to April 1988, the amount of short-term central bank notes doubled to the equivalent of \$40 billion. Today, it is calculated that the cruzado equivalent of more than \$30 billion in speculative money is turned over daily in the "overnight" market.

Another \$20 billion is played on other short-term speculations.

The usurious merry-go-round works as follows: The central bank issues notes, which are bought by banks and other financial institutions to serve as collateral for their operations in the overnight markets. The banks also get deposits from individuals and companies.

Since nobody in his right mind could borrow at the current interest rates, which go up from 1,500% (against 600% inflation), these deposits are almost all used to buy short-term central bank notes. When these are due, the government amortizes them, paying the bankers an amount equal to inflation plus high interest; and a new vicious cycle begins.

At the end of each cycle, all that happens is that the internal debt is increased on the account books. The total is now estimated to be about \$100

billion. The mounting financial costs of servicing the debt increase the public deficit.

Neither the public nor the private sector invests in growth of the country's productive capacity. This infernal dynamic, of course, pushes up inflation, which is now at around 20% per month.

While speculation takes off, industrial production indexes are falling sharply, as a reflex from the general reduction of real wages. According to the government's Brazilian Institute of Geography and Statistics, industrial output in April fell 2.5% from March and was 7.9% less than April last year, Funaro's last month in office.

The total output for the first four months of this year was 6.3% less than last year. The hardest hit were capital goods and construction, each down 7.3%. The insane interest rates aggravate the depression and have put hundreds of thousands of small and medium businessmen up against the wall of bankruptcy.

This insanity has gone so far that the special secretariat which supervises the budgets of all the state sector companies decided that the billions of dollars "saved" by freezing the wages of government employees for two months and by increasing charges for public utilities, would be invested in the speculative financial markets.

With this government policy of speculating against itself, the federally owned companies achieved a financial surplus, something they had not done for years.

The usury merry-go-round will not keep turning for long. Either the bankrupt industrialists will break the banking system or the public debt papers will collapse, evaporating \$50 billion worth of cruzados, which circulate in the overnight market, and dragging down what remains of the productive system.