

## Report from Rio by Lorenzo Carrasco Bazúa

### Internal debt: The circus is afire

*Like trained dogs, the collaborators of President Cardoso are dancing to the tune of the international bankers.*

So far this year, all the efforts of the Brazilian government's economic team have been concentrated on containing the capital flight which followed in the wake of the December 1994 Mexican bankruptcy, and on stubbornly denying that the Brazilian situation has any resemblance whatsoever to Mexico's.

That is why the crisis of Banco Economico was covered up for six months. The bank should have been liquidated at the beginning of the year, in the midst of the Mexican crisis, but this would have revealed the internal corrosion of the Brazilian banking system. The price of hiding the reality, in this case alone, already amounts to some \$3 billion, which the Central Bank had to inject to artificially keep Economico afloat. It is the first of several tens of banks which will inevitably go under because of the unusual increase in unpaid debts, as is insistently rumored in the Rio and São Paulo markets.

True, by offering the highest rates of usury in the world, the Brazilian government has managed to reestablish its international reserves, with the arrival of speculative capital during the months of July and August, calculated at \$12 billion, which boosted exchange reserves to \$45 billion, the highest in history. With this, the government will stem the crisis of its foreign accounts and save itself from an imminent currency crisis.

Maybe the reader thinks that this is good news, and shows that the Brazilian model is different from Mexico. But that would be a cruel illusion. The government has avoided, for now, falling into the fire which is burning

its neighbors, but it has drowned its domestic economy in gasoline.

The interest rates which served to attract foreign capital, together with the exaggerated increase in banking reserve requirements, had the effect of a "strategic bombing" on the national economy: Overnight, it suffocated thousands of farming, industrial, and commercial businesses and forced them into bankruptcy.

Tens of thousands of families which have fallen into credit arrears are also in desperate straits. So, with the sudden cutbacks in consumption, the government can now boast that its exports will grow, relieving the pressure on the balance of trade, which has been \$5 billion in the red so far this year.

The increase in interest rates, on the other hand, set off a phase of cancerous growth in internal debt, especially in the debt in the form of government securities and bonds, which are being used as a valve for the regulation of the domestic money supply. For example, between January and June 1995, this debt went from \$50 billion to \$77 billion.

In July alone, mainly as a result of the massive influx of speculative capital, the government had to issue more than \$13 billion in treasury securities to soak up excess liquidity in the economy, which means that the capital which is entering the country will enjoy a guaranteed 4% monthly interest, which is what the government pays its bondholders. The growth in the internal debt in July, \$13 billion, which raises it to \$90 billion, is equal to the total of what the government says it has collected with the pro-

cess of privatizations since it started with the Collor de Mello regime.

The Cardoso government is now readying the sale of Brazil's "crown jewel," Companhia Vale do Rio Doce. It is the world's largest producer of iron ore; owns gold and copper mines, railroad networks, ports, and the country's largest fleet of ships; and is the developer of the giant Carajas mining site in the Amazon. All this, the government wants to privatize for \$8-10 billion—not even enough to cover the \$13 billion by which internal debt grew in July alone!

In addition, from January 1994 to July 1995, the state and municipal debts have doubled, going from \$17 billion to about \$36 billion. At an interest rate of 60% annually, public indebtedness (federal, state, and municipal), which now amounts to nearly \$110 billion, is growing by more than a billion dollars a week.

The bankruptcy of public finance is total, and the government has yet to feel the impact of the loss in tax revenues due to the economic depression. As expressed by journalist Azis Ahmed in his column in *Jornal do Comercio*, "Since the time when the Venetians bankrupted 'the banking system' of the bankers who did not honor the deposits of their clients . . . it is universally known that banks can also crash from an excess of funds: If they pay more interest than they receive, bankruptcy is just a question of time. The balance of dollars which is running through the country is forcing the Central Bank, because of its monopoly on exchange, to issue securities for the purchase of these dollars. . . . If the stratospheric interest rates continue, the economy is going to go bankrupt."

The bubble will burst, and the circus put on by the pet dogs will end in the generalized bankruptcy of the country.