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Banking by Laurent Murawiec

Crisis management for debtors

Foreign bankers are applying IMF methods, with Brazil as the paradigm.

Speaking from London, Brazil's Planning Minister Delfim Netto announced Sept. 9 that his country holds firm to its refusal to go to the International Monetary Fund for a loan. Brazil is currently seeking $6 billion in loans.

Some creditors have been demanding that Brazil acquire a $4 billion IMF loan rather than come to the private markets. Brazilian policy is that it will never accept IMF austerity terms on loans, which would include imposing slower growth rates on its automotive and agricultural sectors. Latest reports from Europe are that continental bankers are prepared to bail Brazil out, but even if it doesn't go to the IMF, the banks are demanding the same kind of harsh austerity as the International Monetary Fund.

Delfim's rejection of IMF financing was issued one day after British government senior officials attacked Brazil's private refinancing plan in openly inflammatory interviews with the *Financial Times*. "Senior Whitehall officials," the *FT* reported, "would expect [Brazil] to go to the International Monetary Fund and accept the policy recommendations given . . . there." Britain hopes Brazil will "adopt strict policies of austerity and cutbacks in public spending."

Delfim rebuked the British and the IMF in London. In referring to Carajas, Brazil's mountain of minerals which bankers would love to have as collateral on Brazil's debts, he taunted, "We don't want to finance it through loans. We are attracting Arab, German, Japanese, and, we hope, French investment." However, these lenders privately report they have no intention of letting Brazil off the austerity hook.

Brazil owes 16 percent of all Third World debt held by international banks and creditors worldwide. The Brazilian government says this adds up to about $55 billion by the end of 1980, but many bankers suspect their total debt at year's end might really be as high as $70 billion.

Top-level Euromarket bankers reached this week in London, Zurich, and Frankfurt voiced the consensus that Brazil will probably be able to meet all debt payments for the next couple of months, but at the end of the fourth quarter, or beginning in 1981, it might become "crisis spot" in world banking.

"LDCs in general will either borrow more, or when problems arise, draw down on their large accumulated reserves," a Frankfurt loan syndicate officer said about the fourth quarter. "Next year, it may well be that a free-for-all breaks out around these 'crisis cases' " as maturities on loans start bunching up. Speaking from the Eurosyndication desk of a Zürich-based bank, another officer said, "I cannot exclude at all the possibility of having to face 'crisis-management' problems on some loans toward the end of the year."

The fact that the world is heading towards a dangerous global credit crisis over the next 18 months is the outcome of the so-called adjustment policies used to sort out world credit in the aftermath of the 1974 oil crisis.

Although there have been important exceptions to this overall trend, as a global secular tendency, most governments responded to the 1974 oil crisis by subjecting their countries to harsh austerity regimes. This, combined with the aggravated U.S. economic decline, prevented developing countries, aggregately, from meeting rising international costs with expanded real growth based on international trade. When world interest rates jumped upwards in 1979-80, many billions of dollars in higher debt payments were tacked on.

Brazil confronted this problem, partly with huge influxes of foreign loans to build pockets of industrialization in its auto, steel and machine sectors. Countries like Turkey and Poland also borrowed heavily, but due to complex political and strategic conflicts, were prevented from generating industrialization at anywhere near the rates needed to repay their foreign loans.

This summer, Turkey was put through "the biggest debt rescheduling in history" as described by the *Wall Street Journal* Sept. 10. But, this was only on debt owed to governments. Now it is pushing for reorganization of $3 billion owed to 250 private institutions worldwide. A Frankfurt banker assumes that "Turkey cannot solve its debt problem in any case, unless they get major handouts from the West. . . . A settlement will have to be found that reschedules the rescheduling."

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