What Brazil demands of its international creditors

Brazilian central bank president C. G. Langoni presented bankers with four proposals Dec. 20. He insisted *all four* had to be accepted by Dec. 31—later extended to March 1. Langoni left it to Citibank and his aide, C. M. Serrano, to threaten debt moratoria if the bankers delayed.

Project 1—*New Money Facility*

Calls for: $4.4 billion in new loans to Brazil.

Status: Regarded by bankers as the "simplest component." Morgan leaked that "over $1 billion" had been committed by Dec. 31. Langoni claimed $2.5 billion committed by Jan. 4. European and most small banks balking on increasing exposures.

Project 2—*1983 Debt Amortization*

Calls for: All $4 billion in principal due to be repaid to banks to be re-loaned to Brazilian entities for eight years with 30 months grace.

Status: December 29 telex announced Central Bank would *de facto* withhold all amortization payments to creditors starting Jan. 3 to force banks to keep money in Brazil. Interest payments would continue. Any bank could possibly declare Brazil "in default," and turn entire $90 billion Brazilian debt into default. Most banks were planning to roll over these debts anyway. Involuntary nature of retention is only problem. Bank consent, making this legal, expected Jan. 7.

Project 3—*Short-term Debt*

Calls for: banks to continue revolving credits for Brazil's raw material imports and for prefinancing Brazilian exports at current $8.8 billion level.

Status: Theoretically should be no problem. But Brazilian Exporters' Association warns banks have been refusing export prefinancing, thereby truncating Brazil's capacity to export.

Project 4—*Money Market Lines*

Calls for: All banks to restore short-term bank-to-bank exposure to Brazilian banks to June 30, 1982 level of $10 billion.

Status: Few banks will voluntarily accept this; they have been closing down these lines since August, wiping out first the liquidity of Brazilian banks and then the nation's reserves. Few lenders are willing to put funds into insolvent offshore Brazilian branch banks which could be (and should have been) hived off as Ambrosiano Holding (Luxembourg) was by Italy.

30, 1982, the gentlemen send us a telex accepting our proposals to Morgan Guaranty Trust Co. of New York." As if it were running a classic operation of vote fraud, Morgan wanted to count the "returns" in its own inner sanctum.

The confusingly written telex which announced Brazil's partial moratorium Dec. 29 was apparently also a Morgan invention. Brazil's top business daily, *Gazeta Mercantil*, reported "central bank foreign area director Carlos Madeira Serrano said the telex sent abroad was drafted by the big banks and only signed by the central bank." By Jan. 4, a senior adviser in the Reagan administration confided to *EIR* his assessment that "the Brazil loan has fallen through."'

Brazil lost 95 percent of its export revenues to debt service during 1982, not counting the billions of dollars lost by evaporation of short-term credit lines. It paid $7.8 billion in amortization and almost $11.5 billion in interest, according to central bank estimates. It managed to avoid a formal default only by scraping up $2.4 billion in "bridge-loans" from the U.S. Treasury, the BIS, and a half-dozen of the largest American banks.

The Brazilian "bailout" was politically managed by George Shultz in order to prevent Brazil from joining with other similarly penniless Ibero-American nations to force a renegotiation of the debt along the lines proposed by economist Lyndon LaRouche, on a program which would permit rapidly growing inflows of high-technology capital goods from the North. Instead, Shultz suckered the Brazilian military leadership to go the IMF route with promises of "U.S. government support," a U.S. recovery, and a "practically automatic" approval from the IMF and the banks.

An end to growth?

There was manic rejoicing over Brazil's misfortune at the *New York Times*. It celebrated Dec. 18: "With its agreement on terms for an IMF loan, Brazil appears to have temporarily applied the brakes to its rush toward the status of a great industrial power." The *Times* intoned that the banker dictatorship "means that the Government will not have the wherewithal to continue its huge investments in industrial projects, especially steel and hydroelectric power." But, while the economic ministers were putting on a fine show for the bankers, Nuclebras contracted civil construction for two more nuclear power stations in Sao Paulo. In a country now letting 25 percent of its electric capacity go unused, further nuclear starts are a dramatic assertion that Brazilian growth will soon require even more energy.

Stanford University's Latin American Studies director, Dr. John Wirth, recently offered an expert assessment shared by many of the bankers who understand the impact of Brazil's rapid development: "The self-confidence of the Brazilian military is extraordinary. If they see the world economy is not able to provide trade opportunities and finances, . . . there is a great danger they will declare a moratorium. They will do it and they have the will to do it if they feel they are being worked over."

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