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Banks keep Brazil on a short leash

by Mark Sonnenblick

The private banks hurriedly reached an informal agreement with Brazil Feb. 28 on debt payment terms. In return for tiny reductions in interest rates, Brazilian Finance Minister Mailson da Nóbrega agreed to make it easy for creditors to swap debt paper for ownership of prime profit-making assets in Brazil. Brazil also secretly agreed with the United States to practically eliminate protection of its nascent computer industry.

And, as is usual in such cases, Brazil is submitting its internal economy to control by the International Monetary Fund. Since civilian rule was restored in 1985, Brazil had regarded the IMF as incompatible with democratic government and national sovereignty. The first IMF negotiating mission since 1984 arrived in Brasilia, Feb. 29. The IMF staff is scheduled to complete Brazil's letter of intent by the end of April, with formal ratification by the IMF directors taking place in mid-June. The IMF is expected to lend Brazil only half of the $1.1 billion Brazil repaid it last year. But, an IMF agreement is the *sine qua non* to get off the blacklists of the United States, other governments, and the World Bank. Last year, it faithfully paid them interest, but was cut off from new lending.

The bank advisory committee tentatively agreed to lend Brazil $5.8 billion toward 1987 and 1988 interest bills. After deducting the $4.3 billion not paid them during Brazil's 1987 debt moratorium, only $1.5 billion is left toward the $6.6 billion interest due the banks in 1988.

The deal leaves Brazil in a cash squeeze, which is expected to require it to crawl to the U.S. Treasury in April for the first of several "bridge loans." This is because (except for some advances made at New Year's to facilitate Brazil's breaking its moratorium), the banks will not put forward any money until at least July. Their "threat to lend" is conditional on Brazil getting IMF approval and on almost all creditor banks signing on to the terms. By some time in March, Brazil will have stripped its foreign exchange reserves down to dangerous levels with sizable payments on overdue and current interest. Brazil will not have enough cash to pay all the interest due starting in April. The finance minister promised the banks he would keep current on interest payments, although he is not honest enough to admit in Brazil that the moratorium has been formally ended.

"The creditors' strategy is to keep the debtor on a short leash, as has been happening with Argentina and Mexico, which are continually needing bridge-loans," an aide to former Finance Minister Dilson Funaro commented Feb. 29. When Funaro declared a debt moratorium on Feb. 20, 1987, he aimed to force interest rates to be renegotiated to levels low enough that Brazil could fully service its debt, without having to take on new debts to pay old ones or starve Brazil's people. Nóbrega accepted a 0.8% interest reduction, so that, if London dollar rates remain unchanged, Brazil will be paying about 7.5% interest on state-guaranteed borrowings. Brazil will also pay 0.37% front-end fees on each new loan or roll-over.

A year ago, in retaliation for the moratorium, foreign banks cut Brazil's short-term revolving credit lines by about $2 billion, shortened them from 90 days to, often, only 10, and charged premium interest on them. The banks now promise to restore $600 million of these lines.

The United States put the screws on Brazil in October by announcing its intent to restrict Brazil's imports to the United States. It might not be a coincidence that the Reagan-Bush administration iced the sanctions the day after Brazil settled with Wall Street. Brazilian newspapers reported that Nóbrega had secretly promised Washington he would end protection of the fledgling computer industry in return for a rapid deal on debt.

Brazil needs a huge trade surplus with the United States if it is to expand last year's $11.2 billion global surplus to the $14 billion needed to meet debt payment schedules. Under IMF policies, each dollar added to trade surplus entails $2-10 taken out of domestic consumption. Real wages at the end of 1987 were about 26% lower than at the beginning. Food processing was down 15% in January and Funaro-epoch food imports were gone.

State sector austerity is more difficult, since President José Sarney is trying to extend his term through political payoffs to his supporters. Recessionary conditions and reduced consumption caused federal tax revenues in January to fall 8% in real terms from a year ago, despite a 23% increase in income tax collections. A car sold in Rio brings in taxes worth more than its production cost. If exported, it pays nothing. Normally a deficit month, January had a trade surplus of over $1 billion for the first time ever.

Inflation last year was 396% and it has climbed since Nóbrega began financing foreign debt payments by printing money. In February, prices rose 17.96%. They are rising so fast workers cannot keep track of how much they are losing or even know what will be in their next pay envelope.

Nóbrega has announced draconian austerity against state and local governments. But he is so unsure of his power that he persists in lying to Brazilian audiences that "the IMF has changed" and will not insist on further budget cuts.

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