 by Lorenzo Carrasco Bazúa

Relax! It's only an earthquake!

Cardoso's best-laid plans for re-election may go awry, if latest economic developments are any indication.

The global bonds which Brazilian President Fernando Henrique Cardoso and his economic team had hoped to place so successfully in the international capital markets, turned out to be a failure. The hiring of the Warburg and J.P. Morgan investment houses didn't help, any more than did the announcement that the Queen of England would be receiving Cardoso in 1997 to invest him with a knighthood. The $750 million worth of bonds were only placed after the government added another 10% yield to that originally offered.

This failure confirms that the international financial interests will be demanding ever greater guarantees to keep up the flow of speculative funds upon which Cardoso's monetary stabilization program, and his Presidency itself, depends. They are demanding with special urgency that the giant mining complex Vale de Rio Doce, be immediately privatized, together with the electrical energy and telecommunications companies.

The government plan to launch the international bonds was part of a political and economic strategy, whose intent was to try, on the one hand, to reduce real interest rates on its internal debt of nearly $220 billion, from the current 12% a year, to an international rate of 8-9%. At the same time, the idea was to use the expected success of the bonds to quiet the growing opposition to Cardoso's economic program, and especially the widespread opposition to privatization of the Vale de Rio Doce complex. All this, it was hoped, would then be leveraged into boosting President Cardoso's re-election.

In preparation for issuing the bonds, the government announced a fiscal austerity package which includes eliminating 30,000 public sector jobs, in addition to salary cutbacks which, according to the government itself, would yield a savings of slightly more than $6 billion for the 1997 budget, *and* a reduction of the public deficit from the 4% of the GNP projected for this year (some $35 billion) to 2.5% in 1997. As part of this same package, the government announced that absolutely all revenues from privatizations would go toward easing the internal debt. In 1997, the government hopes to garner more than $10 billion from privatizations, including the $6-7 billion said to represent the value of the government's portion of Vale do Rio Doce.

In addition to victimizing the public sector workers even further, and looting the national patrimony, the package, as it is conceived, is absurd, since the source of the growing fiscal deficit is the galloping internal debt, especially that portion denominated in treasury and central bank notes. For example, the growth of debt in federal government paper increased during the two years of Cardoso's *Real* Plan by $100 billion, meaning a weekly growth of $1 billion! Take into account that the savings of $16 billion from looting the workforce and national patrimony represents a mere 16 weeks' worth of increase in internal debt bond holdings.

The reality of the fiscal deficit can be found in the axioms of the economic plan itself, which depends on a flow of foreign capital to cover both the balance of payments deficit and the lack of tax revenues due to destruction of the productive economy under the economic "opening." The government failed in its efforts to reduce this year's $18 billion balance of payments deficit, the result of a sudden increase in the trade deficit which could reach $5 billion. The payments deficit could reach as much as $20 billion this year.

By next year, expectations are even worse, since the trade deficit is expected to reach between $6 and $8 billion, while the payments deficit could reach something in the order of $25 billion, precisely the path Mexico followed as it headed toward its 1994 blowout. The reality is that the country is submerged in a recession, with growing rates of unemployment and, above all, a process of generalized insolvency which could put the entire banking system in check.

Journalist Elio Gaspari commented in his Oct. 30 *O Globo* column: "This contraction could mean many different things, and whoever interprets it correctly could make big bucks. One thing is certain: It took place after IMF director Michel Camdessus's intriguing pronouncement in late September, in Washington, where he stated: 'I am frequently asked when we will have the next international crisis, the next Mexico, and my answer is that I don't know, but that it could well start with a banking crisis.'. . . Shocks like this do not mean that the Brazilian economy's ability to sustain itself with foreign capital is about to disappear. What it does mean is that it would be advisable for there to be more doubts and fewer certainties in the government's calculations."

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