Brazil boxed in

The balance-of-payment problems are surfacing, despite Morgan's effort to keep the debt under its political control.

For the first time, Brazil's central bank has announced that the September foreign-accounts statistics would remain secret until the climate of international speculation about Brazil's liquidity ceased. From now on, rumors will be the only thing on the market.

What has happened is that Brazil is being put into a form of receivership run by Morgan Guaranty and its allies to keep alive the *illusion* of liquidity until after the crucial Nov. 15 national elections. Even without the September statistics, one can calculate how big the hole is.

The daily *Folha de São Paulo* put its economists to that task, Oct. 17. They simply added up the dollars which will come into Brazil by the end of the year with those which will leave. Comparing the totals with those offered by Planning Minister Delfim Netto in the official balance-of-payments projection he issued at the beginning of the year, they found a gap of $6.6 billion.

The biggest portion thereof came from the Federal Reserve's high interest rates, which forced Brazil to pay out $12 billion on that account, instead of the $9 billion anticipated by Delfim, who had believed that 1982 would be "a year of recovery."

The international depression and punitive terms of trade also caused Brazil to fall short—by a whopping $2.3 billion—of the $3 billion trade surplus forecast by Delfim (see *EIR*, Oct. 26).

That, despite the Brazilians slicing $5 billion out of expected imports at the price of continued economic contraction, and doing every little thing possible to increase exports by heavy subsidies and clever accounting gimmicks. The latest one will give Brazil an officially estimated $1.2 billion in exports on oil platforms and ships which are "exported" to Banco de Brasil's Cayman Islands leasing division and then "leased" back to Brazil.

Not surprisingly, the $2 billion in expected foreign investment failed to materialize. During the first half of the year, net foreign investment was actually negative—for the first time since the 1964 coup made Brazil an attractive place for investors. (Brazil still is, except for the world crisis.)

How has Brazil dealt with the $6.6 billion payments gap?

Delfim has acknowledged $2 billion of it, and raised his 1982 borrowing needs projection from $11 to $13 billion; the last $4 billion of this must be scraped together during the last four months, despite the shut-off from the banks.

In addition, Brazil ran up its short-term debt, which unofficial estimates put at $12.9 billion at the beginning of the year and must be around $15 billion now. Even that possibility began to close up in the spring, and ended completely in the past few months.

Brazil has had to draw down its reserves to meet payments. A central bank official leaked that Brazil had sold part of its gold reserves in July to meet a $60 million payment. *Estado de São Paulo* reported that the government had to borrow $250 million from Petrobras in August to meet payments.

Thus, it is logical that foreign reserves have fallen from the $7.5 billion at the beginning of the year to the $4 billion level currently estimated by sources close to Morgan Guaranty and the IMF. Those reserves, however, are in untouchable forms including receivables in arrears from export clients such as Poland, Mexico, Argentina, and Venezuela, and some $800 million in gold.

Morgan has pulled out all the stops—not only to convince Brazil that there would be a recovery in the United States, but to convince bankers that they could trust Brazil.

Morgan widely publicized a $100 million syndicated loan it led in October, the first since the summer. And it quietly convinced the Brazilian government to grant an ex post facto federal guarantee to an old unsecured syndicated loan which the state of Goias had allowed to go into arrears.

Delfim has released, piece by piece, a picture of how he plans to keep Brazil out of formal moratorium next year, under the terms of Morgan's "optimistic" scenario for the banks financing a 10 percent increase in debt. That means that the banks would roll over principal and would finance only $8 to $9 billion of the $15 billion service-account deficit Brazil will show next year.

With no more reserves to run down, Brazil will have no choice but to eke out a trade surplus of $6 to $7 billion next year.

Delfim promises to do that, even if it means import cuts so drastic that they can hardly be imagined—and would not have been imaginable at all had interest rates not come down somewhat.