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International Credit by Renée Sigerson

Brazil bites IMF bullet

A trickle of credit from the Fund and the United States was won at the cost of sovereignty and industrial investment.

Brazilian Finance Minister Ernane Galveas confirmed to reporters on Nov. 26 that Brazil—the world's second largest debtor (after Mexico)—had finally decided to go to the International Monetary Fund. Formal negotiations began in Brasilia Nov. 29 on the conditionalities to be imposed on the Brazilian economy by the notoriously anti-growth IMF in return for an estimated $6 billion loan package.

Although Brazil's monetarist Planning Minister Delfim Netto hailed the IMF package as the key to the country's salvation, it will be a drop in the bucket compared to Brazil's real credit needs. At best, the IMF will provide Brazil with $2 billion in standby credits and its seal of approval early next year. Delfim hopes this will serve as a green light for commercial-banks lending.

But the Brazilian National Monetary Council reports Brazil will require $16.3 billion for debt service next year. The banks will also be asked to renew an estimated $14-$16 billion in short-term borrowings, on which Finance Ministry sources estimate $4 billion is due in January, the same in February, and more in each ensuing month.

Delfim Netto has pledged to pay part of the debt service with a $6 billion trade surplus next year. But, with September exports 19 percent below last year's level, and October's down 24 percent, such an achievement would be his first genuine "miracle."

Even with a $6 billion trade surplus, Brazil would still have to tap the rapidly dwindling Eurodollar pool for $17-$18 billion in new lending. Thus, bankruptcy can at best be papered over for no more than a few months.

Although Brazil had already administered IMF-style "medicine without the doctor," the move is a setback for those forces in Ibero-America fighting to solve their asphyxiating debt crisis, not by applying the IMF's austerity, but by jointly renegotiating their debt.

There were many signs of foreplay between Brazilian officials and the IMF, but the government kept the negotiations under wraps until after the Nov. 15 elections. Brazilians, imbued with optimism by a decade of 10 percent annual growth, agree with opposition Senator Saturnino Braga's dictim: "Brazil is a country which cannot stop, and the International Monetary Fund recipe is to stop the country."

What is the IMF asking Brazil to do in return for saving its credit rating? "Just what we were going to do anyway," answers Delfim Netto, author of the "Brazil Foreign Sector Programme in 1983" in close collaboration with the IMF and Federal Reserve chief Paul Volcker, whose high interest rates were one of the main causes of Brazil's bankruptcy. Delfim's 1983 plan calls for sharply increasing exports while slashing vital imports—a policy Brazilian economists calculate will produce a drop in GNP of 4 to 6 percent next year.

Although *Folha de Sao Paulo* reports average real wages of industrial workers fell by 22 percent during the first seven months of this year, the IMF is known to believe that far sharper reductions are required.

The government has long allocated loans at less than the inflation rate to priority areas such as agriculture, industry, and export financing. The IMF says "no more cheap credit."

According to economic columnist Joelmir Beting, the IMF discovered that the government planned to spent $90 billion over the next three years on major projects. These projects, such as the huge Carajas iron-ore complex in the Amazon, have been initiated to industrialize the country's vast natural wealth. But the IMF demands that all Brazil's savings and borrowings go only for debt service, rather than for productive investments.

Finance Minister Galveas was perturbed that the first announcement of IMF negotiations was made, prematurely, by the country's second largest creditor. In Rio on Nov. 19, David Rockefeller proclaimed, "Brazil is engaged in active conversations with the International Monetary Fund. . . . There are certain unpopular measures which must be taken and which end up being better accepted when they are dictated by the Fund and not by the government. Since that is precisely what the IMF is there for, it's a good opportunity for Brazil to solve its economic difficulties."

At the GATT meeting in Geneva, Treasury Undersecretary MacNamar had negotiated a $1.2 billion 90-day "bridge loan" tied to Brazil's accepting IMF conditionalities. Reagan, who was not quite sure whether he was in Bolivia or Brazil, announced the "bridge loan" during his visit to the latter, Dec. 1, perhaps thinking it was for an infrastructure project. It took Secretary of State Shultz to define the details of the Treasury "bailout."

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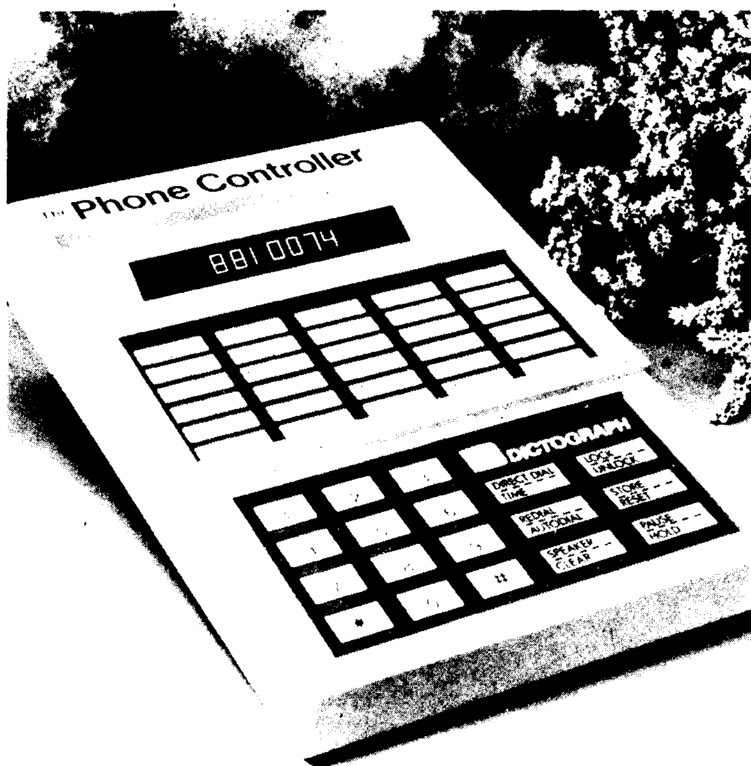

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