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Report from Rio by Silvia Palacios

Debt payments halted . . . for elections

Sarney is suspending interest payments to calm pre-election waters, but some military circles want a break with the IMF.

On June 30, the government of Brazilian President José Sarney decreed a series of monetary measures which suspended payments abroad, including interest payments due on the foreign debt. Similar measures were taken on two previous occasions: in 1983, when the monetary reserves fell to zero, and in 1987, when a moratorium on foreign debt interest payments was declared.

The latest measures are designed to protect the country's international reserves, currently estimated at some $6 billion, and to avoid an exchange crisis that could destabilize the presidential elections scheduled for November of this year. Without this stabilization effort, the Brazilian economy—already on the verge of hyperinflation—could spin wildly out of control à la Argentina, making the elections a pipe-dream.

Up until now, Brazil has not paid the Club of Paris some $800 million worth of interest on the debt. The government's position is that payments will only be made to the extent that capital comes into the country from abroad, hopefully through an agreement with the International Monetary Fund (IMF). However, that possibility is rather remote at the present time, as Brazil's own economic authorities admit. "An agreement with the IMF will be for the next government," said Planning Minister João Batista de Abreu on July 6.

Finance Minister Maílson da Nóbrega asserted that such an agreement "is difficult, very difficult, in a situation in which the 1989 fiscal deficit is worse than that of 1988."

Between now and November, Brazil must pay to its combined creditors $6.7 billion. The technical moratorium will actually occur in September, two months before the elections, when the banks must be paid $3.4 billion. The moratorium will most certainly be extended through March 1990, when the new President is to take power.

Brazil's record exports of $35 billion between May of 1988 and May of 1989—achieved at the cost of brutal wage-gouging—have not appeared to help. Of the $35 billion, only $12 billion actually entered the country's reserves. The world economic depression has left Brazil without resources and with its industrial plant and equipment in dramatic decline, with the lowest investment rate in a decade.

Although Citibank's "man in Rio," former minister Mario Henrique Simonsen, has called it an "educated" (read: well-behaved) moratorium, it may not turn out that way. In fact, Brazil's ambassador to the United Nations Paulo Nogueira Batista has launched a virtual confrontation with the international financial system, in which the moratorium could serve as an opening salvo. Nogueira Batista is a former director of the company Nuclebrás, and is known for having promoted the great Brazil-Germany nuclear deal during the government of Gen. Ernesto Geisel.

In an explosive speech in Geneva, Switzerland on July 7 before the Economic and Social Council (ECOSOC), Nogueira Batista declared: "The multilateral economic system is in total disorder, it is in ruins," and not only the United Nations system—FAO, ECOSOC—"but also the Monetary Fund and World Bank." He emphasized that the IMF and World Bank are controlled by the creditors and that their purpose today is "limited to overseeing the world flow of money." Finally, he accused the United States of being responsible for this world disorder by "increasing interest rates, which are the cause of the rapid rise in developing nations' debt."

Pressure for the country to maintain even minimal protection for its reserves came primarily from the Brazilian Armed Forces. President José Sarney himself, in meetings with the defense sector, was forced to address the problem of the foreign debt: "The country has allocated more resources for payment of the debt than for social investments," he said June 13 to a group of students and professors from the Superior War College.

Military discontent with the decline of the state sector, lack of resources for point technology projects, and above all the deterioration of their own wages, was reflected in an editorial in the newspaper *Ombro a Ombro* (*Shoulder to Shoulder*), edited by a group of retired military officers with great influence both among the military and political elites. In its June edition, *Ombro a Ombro* cites a 1983 article from *EIR* which warned that agreements with the IMF would only lead to the disintegration of the economy, of Brazil's great industrial projects, and of the state companies.

"We are Brazilians and we are under siege," it read. "We must respond. There can be no reaction without unity. Unity is of the people. Either we break the siege and battle the adversary, or—in short—we will awaken under a foreign flag."

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