 by Silvia Palacios

Franco's new economic program

The President's plan is bad—but not bad enough to satisfy the International Monetary Fund, which wants more austerity.

Six months into his government, on April 24, Brazilian President Itamar Franco announced his long-awaited economic program. Brazil, a potential industrial giant, is in the midst of a profound economic crisis, with monthly inflation at 30%, and a 1993 budget which has to allocate 67% to payment of internal and foreign debt.

The economic crisis could set off social explosions as well as institutional crises, symptoms of which are already visible. Yet the announced measures are not significantly different from those of Franco's predecessor, Fernando Collor de Mello, and they disappointed those who had hoped for a more dramatic challenge to the financial usury that currently reigns.

The program allocates $4.7 billion in credits for agriculture, one-third of the 1980 budget; it also accelerates the privatization program, including sales of stock in companies considered to be of strategic importance, such as energy and oil. Although for the moment, the government will maintain at least nominal control over these companies, it will also grant foreign capital unlimited participation in bidding for stock.

Other measures include $2.6 billion for middle- and low-income housing, and a commitment to "combat hunger" as per the program outlined by the leftist Workers Party (PT). Overall, however, the program cuts $13 billion from a federal budget already stretched to the limit, and it calls for concluding the agreement with creditor banks for refinancing the foreign debt.

Franco explained that his program was intended to promote economic growth, but without "scaring" the country's "financial agents." In other words, Franco knows what steps need to be taken to solve the crisis, but refuses to implement them out of cowardice. But for all of his caution, it was nonetheless met with tremendous hostility by the international financial community.

The April 27 *Financial Times* of London reported that the International Monetary Fund (IMF) will question "the plan's emphasis on spending and stimulating growth and alleviating poverty" rather than tackling the inflation rate. "Real fiscal reform" is being delayed until the October debate on constitutional revision, the *Financial Times* complained.

In the days leading up to Itamar Franco's announcement, media quoted IMF officials warning that the Fund was losing patience over Brazil's "six years of gradualist approach." These unnamed officials said that Brazil would have to take tough measures before the IMF would provide any funding, and described Brazil's record of no growth as a "scandal that has to be corrected." The Fund does not intend to "jeopardize its credibility" by backing an "overly gradualist and minimally ambitious program" these officials said.

Inside Brazil, speculators and currency traders were encouraged by the expansion of the privatization program, and the markets responded favorably. A spokesman for the Salomon Brothers investment firm remarked that "it's good that the privatization program has more support, that it will be more aggressive, that investment participation is now 100%; and even more important that revenue collected will be used to reduce the internal public debt."

President Franco explained on April 26 that "it is important that we presented a plan with no surprises, a plan for dialogue, one we want to see discussed throughout society. Above all, we want to see that the private financial system understands that the government could have taken stronger steps if it wanted to, but didn't. Now the President wants the collaboration of the financial sector."

By this the President meant that he did intend to take some steps, such as lowering interest rates, which would affect the financial system. On the same day as he announced his program, he stated that it was necessary to ease the high interest rates on 30-day, short-term deposits, and to leave only the monetary correction.

In 1992, the private banking system made $1.9 billion, 80% of which came from operations involving public paper. Private bankers, including the central bank, are not about to make concessions that will affect their profits.

Central bank president Paulo Cesar Ximenes responded sharply to Franco by threatening to resign over what he said was the President's failure to consult him. He cancelled a planned visit to Washington, D.C., where he was to participate in negotiations with the IMF, and spent the following week fending off the President's pressures for an interest rate cut.

Another central bank technocrat, Francisco Amadeu, director of monetary policy, met with a group of bankers in Rio de Janeiro and warned that the bank had no intention of bending to the President's wishes.

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