# An uncertain debt pact

*The success of the bankers' plan for debt renegotiation rests on the election of Fernando Henrique Cardoso.*

The circumstances surrounding the April 15 signing of a debt pact between Brazil and its commercial creditors reveal the bankers' fear of the political and institutional instability currently reigning in Brazil, and of the possibility that the crisis could make them lose control over economic policy.

After spending the greater part of last year agreeing to negotiate a deal as soon as the country received approval from the International Monetary Fund, the banks' steering committee, headed by Citibank's William Rhodes, decided only a few weeks ago to accelerate and, finally, to conclude the process—without the IMF's green light. The influential daily *Gazeta Mercantil* commented on April 20, "Despite the failure with the Fund, the banks were anxious to conclude the agreement. They feared that a new delay would shelve the deal during the elections."

The fears of the foreign financiers are not unfounded. In an interview in the April 22 issue of *O Estado de São Paulo,* Finance Minister Rubens Ricupero compared the situation with that on the eve of the military takeover in 1964, and said that the country was experiencing "a paralysis of decision-making" which "threatens to become *rigor mortis,* or to degenerate into explosions of violence if not cured by the remedy of action." According to Ricupero, "the worrisome coincidence" is the combination of "an unprecedentedly severe inflationary conjuncture with the continued incapacity to face the problems and [undertake] the medium- and long-term structural reforms."

Because of the IMF's refusal to give its nod of approval, Brazil was forced to spend nearly $4.6 billion of its reserves to buy U.S. Treasury Bonds demanded by the creditors as collateral for the new debt agreement, an operation that former Finance Minister (and now presidential candidate) Fernando Henrique Cardoso had been orchestrating since October 1993, behind the back of Congress. Further, the banks won a reduction of the discount on the debt being renegotiated, from the 35% announced in 1992 when the negotiations were initiated, to a final 25%. It was the original 35% discount figure that convinced Brazil's Senate to approve the renegotiation.

As part of the agreement, Brazil is to issue bonds worth approximately $52 billion, of which $8.5 billion are debt conversion bonds to be used in privatizing Brazil's state companies.

At the same time, the standby loan from the IMF that the Brazilian government is seeking will depend on whether it successfully implements the so-called "FHC Plan," named after Fernando Henrique Cardoso, who left it behind as his legacy when he abandoned the Finance Ministry for a presidential bid. The bankers are particularly concerned with the effects of introducing the new national currency, the real. This was stated quite clearly by IMF Managing Director Michel Camdessus in a meeting with Cardoso in mid-April. Another of Camdessus's demands was that the government intensify its constitutional reform process, now virtually paralyzed in the Congress.

Cardoso returned to Brazil with Camdessus's message and immediately called a meeting of his former aides at the Finance Ministry to pressure them into accelerating the introduction of his proposed new currency, which had originally been scheduled for July. He then met with his successor at the ministry, Rubens Ricupero, to deliver Camdessus's "recommendations" and make it absolutely clear that his candidacy would be at risk if the economic plan he had left behind did not obtain the desired results.

Cardoso's partisans have already expressed their concern over the "FHC Plan," above all because the creation of a currency index designed to precede adoption of the real is not proving effective against speculative inflation, which already hovers at 45% *a month.*

In mid-April, while Cardoso was getting his orders from Camdessus, another infamous water boy of the financial elites, Argentine Economics Minister Domingo Cavallo figured in another shocking episode: He telephoned the main figures of the Brazilian economic team to urge the immediate introduction of the real into Brazil's monetary accounts. "You're crazy; this can't wait! If you don't hurry, the plan is going to be fruitless and inflation will take off," he is reported to have told the team, according to the daily *Folha de São Paulo* of April 20. For Cavallo, the main problem is not the inflationary process, but the loss of credibility.

In an interview with *O Globo* on April 20, Congressman Maurilio Ferreira Lima acknowledged the fears of Cardoso's supporters, like himself: "The team must understand that if Fernando Henrique is not elected, there will be no plan. And that the exasperation of the people with price increases is enormous. Administration of the plan cannot be technical, because it has political implications for the careers and credibility of those who back it."