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DESKBY 210800Z

FM BRASILIA 202200Z SEP 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 350 OF 20 SEPTEMBER

AND TO IMMEDIATE BANK OF ENGLAND ECGD

INFO IMMEDIATE HMT, DTI, PARIS, UKDEL IMF/IBRD WASHINGTON

INFO SAVING RIO DE JANEIRO, SAO PAULO

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Prime Minister

MS 21/9

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BRAZIL'S DEBT

1. I CALLED TODAY ON THE NEW PRESIDENT OF THE CENTRAL BANK. MCQUIBBAN ACCOMPANIED ME. FULL RECORD FOLLOWS BY BAG. MAIN POINTS WERE AS FOLLOWS.
2. PASTORE LED OFF BY SAYING THAT BRAZIL NEEDED THE BRITISH GOVERNMENT'S HELP IN SECURING A PLEDGE FROM ECGD FOR EXPORT FINANCE BETWEEN NOW AND END-1984. THIS, TOGETHER WITH SIMILAR PLEDGES BY EXIMBANK (US DOLLARS 1.5 BILLION ALREADY SUBMITTED TO US CONGRESS) AND BY THE CANADIANS, JAPANESE AND OTHER EUROPEANS, WOULD ENCOURAGE THE BANKS TO TAKE THEIR SHARE OF THE RISK ELEMENT IN MEETING BRAZIL'S FINANCIAL REQUIREMENTS FROM NOW UNTIL END-1984, AMOUNTING TO 11 BILLION DOLLARS. OF THIS SUM, SOME 2 BILLION DOLLARS WOULD BE FOUND FROM PARIS CLUB RESCHEDULING AND A FURTHER 2.5 BILLION DOLLARS FROM THE WORLD BANK AND IADB TOGETHER. THE REMAINDER WOULD HAVE TO BE FOUND FROM THE PRIVATE BANKS: AND THIS WAS WHERE THE GOVERNMENT-GUARANTEED FINANCING REQUESTED ASSUMED SUCH IMPORTANCE. THE FINANCE MINISTER WAS HOPING TO HAVE AN OPPORTUNITY OF DISCUSSING THIS QUESTION WITH HIS COLLEAGUES IN THE MARGIN OF THE IMF MEETING IN WASHINGTON NEXT WEEK.
3. I ASKED PASTORE HOW HE SAW THE GOVERNMENT'S ECONOMIC STRATEGY PROGRESSING. HE SAID THAT THE IMF NEGOTIATIONS HAD BEEN SATISFACTORY SO FAR. THE TARGETS SET WERE, IN HIS OPINION, VIABLE, INCLUDING THE PUBLIC SECTOR DEFICIT OF 0 PERCENT (IN REAL TERMS) OF GNP BY END-1984 (7 PERCENT NOMINAL), WHICH PROMPTED HIS PREDECESSOR'S RESIGNATION. THE BOARD'S APPROVAL WAS EXPECTED AT THE END OF OCTOBER. THE TRADE BALANCE PROJECTION FOR 1983 (6.3 BILLION DOLLARS) WOULD PROBABLY BE OVERSHOT BY SOME 10 PERCENT, WHILE THE 1984 TARGET (9 BILLION DOLLARS) WAS ENTIRELY FEASIBLE, SO LONG AS COMMODITY PRICES AND WORLD ECONOMIC ACTIVITY HELD UP. IF THEY DID NOT, IMPORTS WOULD HAVE TO BE CUT FURTHER. IN REPLY TO MY QUESTION ABOUT THE FORECAST FOR ARREARS IN PAYMENTS BY THE END OF 1983, WHICH WAS QUOTED IN ONE NEWSPAPER AS REACHING 3 BILLION DOLLARS, HE SAID THIS WAS A WORST-CASE FIGURE, ASSUMING NO NEW INFLOWS FROM THE IMF OR THE COMMERCIAL BANKS AND RELYING PURELY ON REVENUE FROM EXPORTS. IF THE EXPECTED INFLOWS DID MATERIALISE, THE ARREARS SHOULD BE REDUCED TO ZERO BY THE END OF DECEMBER 1983. I ASKED ABOUT RESERVES: AND HE SAID THAT

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THESE SHOULD REACH A FIGURE OF 5 BILLION DOLLARS BY END 1984,  
THOUGH SOME OF THEM WOULD BE ILLIQUID.

4. ON THE POLITICAL FRONT, I ASKED HOW HE VIEWED THE PROSPECTS  
FOR GETTING DECREE LAW 2045 (PROVIDING FOR THE PARTIAL DE-  
INDEXATION OF WAGES, SALARIES AND RENTS) THROUGH CONGRESS. HE  
SAID THAT IF DECREE LAW 2045 WERE TO BE REJECTED IT WOULD MERELY  
BE REPLACED BY A FURTHER DECREE LAW WITH SIMILAR PROVISIONS.

THE GOVERNMENT WERE NOT TO BE SIDETRACKED BY STRIDENT OPPOSITION  
CALLS FOR A UNILATERAL MORATORIUM OR A BREAK WITH THE IMF. INDEED,  
SOME OPPOSITION LEADERS - NOTABLY THE STATE GOVERNORS, WHO  
HAD HEAVY RESPONSIBILITIES OF THEIR OWN - WERE MARKEDLY LUKEWARM  
IN PRESSING THE GOVERNMENT TO CHANGE COURSE. IT WAS DESIRABLE  
THAT PUBLIC OPINION SHOULD BE EDUCATED ABOUT THE HARSH ECONOMIC  
FACTS OF LIFE AND THE JUSTIFICATION FOR THE CURRENT ECONOMIC  
STRATEGY; BUT THERE WERE SEVERE LIMITS AS TO WHAT COULD BE SAID  
TO THE PRESS AT THE MOMENT WITHOUT JEOPARDISING THE DELICATE  
NEGOTIATIONS AT PRESENT IN PROGRESS. I ASKED HIM FLATLY WHETHER  
HE EXPECTED PRESIDENT FIGUEIREDO TO LAST OUT HIS TERM OF OFFICE  
UNTIL MARCH 1985, TO WHICH HE REPLIED: QUOTE OF COURSE UNQUOTE.

COMMENT

5. PASTORE WAS REMARKABLY CANDID IN ANSWERING ALL MY QUESTIONS  
AND IMPRESSED ME WITH HIS FORTHRIGHTNESS AND CALM DETERMINATION.  
HE MADE IT QUITE CLEAR THAT HE IS LOOKING FOR OUR URGENT HELP IN  
SECURING AN ECGD PLEDGE (PARA 2 ABOVE), WHICH HE REGARDS AS AN  
IMPORTANT PIECE IN THE REFINANCING STRUCTURE WHICH THE ECONOMIC  
TEAM ARE PUTTING TOGETHER. HE PROMISED TO GIVE ME A COPY OF THE  
LETTER OF INTENT TOMORROW (AS SOON AS THE FINANCE MINISTER HAS  
TRANSMITTED ITS TEXT FORMALLY TO CONGRESS) AND SAID THAT HE WOULD  
LIKE TO SEE ME AGAIN WHEN HE RETURNS FROM WASHINGTON ON 3  
OCTOBER.

FCO PLEASE ADVANCE TO:  
BANK OF ENGLAND - LOEHNIS, BALFOUR, HALL  
HMT - LAVELLE, CAREY, CASE  
ECGD - HARDING

HARDING  
MONETARY  
S A M D

ADVANCED AS REQUESTED

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ADVANCE ADDRESSEES

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