

cf AW 2



Prime Minister

MCS 17/5

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Michael Scholar, Esq
Private Secretary
No 10 Downing Street
LONDON SW1

16 May 1983

Please see
now Alan
Walter's
note (attached)

MCS 17/5

MCS

Dear Michael,

INTERNATIONAL FINANCIAL SCENE: BRAZIL

I wrote to you on 6 May with the latest in our series of assessments of the international debt scene. Despite substantial continuing problems, the overall prospect appeared a little more encouraging.

Since then, however, the financial situation in Brazil seems to have taken a turn for the worse. Notwithstanding encouraging trade figures for March and April (the surplus in the latter month being estimated at over \$600 million) the build-up of arrears continues inexorably, and there have been reports of one major Brazilian bank having to have special overnight assistance in New York to meet its day-to-day obligations. More seriously, it is becoming clear from a number of sources that Brazilian delays in producing the run of statistics required by the IMF mean in reality that they are currently in breach of a number of their performance criteria under their arrangement with the Fund. This could put in jeopardy their next drawing from the Fund on 1 June, and that in turn puts a question-mark over the disbursement of their next instalment under the bank's "new money" project, the timing of which depends on continuing eligibility from Brazil to draw from the IMF.

I have heard of this, too, through banking contacts. MCS 17/5

For the moment we must await events on the IMF front (we understand that the Brazilians are due to talk to de Larosiere early this week, no doubt with a view to amending some of the criteria), but the Chancellor thought it right that you should know at once of this potentially awkward development.

We shall be making a further general assessment of the international debt scene with the Bank of England early next week and will let you have an updated appraisal of the position in Brazil and the other major problem countries in the light of that, and before Williamsburg.

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I am copying this letter to Tim Allen (Bank of England), Brian Fall (FCO) and John Rhodes (Department of Trade).

Yusew,

J. O. Kerr.

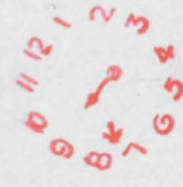
J O KERR
Principal Private Secretary

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11 Nov 1983



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