

CONFIDENTIAL

cc Sir Anthony Parsons
Mr. Coles

MR. SCHOLAR

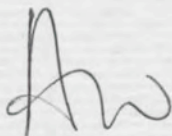
Econ. Pol.

INTERNATIONAL FINANCIAL SCENE: BRAZIL

The letter from John Kerr does not specify what I believe is the most important cause of Brazil's deteriorating financial situation.

As you know, Brazil is the worst offender in using short term interbank deposits to finance its continuing financial deficit. Banks in a number of countries have refused to renew interbank credit lines. There was about \$7½ billion outstanding last year and now this has gone down to less than \$5½ billion. The defection of several small banks in the United States is important. Similarly, the complaint of Leutweiler that the Central Banks should not lean on commercial banks to keep renewing these interbank credit lines when they are being used for the "wrong" purposes. I understand that the Swiss commercial banks have withdrawn their support almost entirely. And I am told that many German banks are also failing to renew.

Everything seems set for a new call on finance from governments. It is likely that the interbank lines will collapse more or less completely. If this happens, then there will be a financial gap in the rescue package of several billion dollars, and perhaps even as much as four or five billion. I agree with John Kerr's assessment of the timing. It is likely to break just before the Williamsburg Summit.



ALAN WALTERS
17 May 1983

CONFIDENTIAL